



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2024-III INFLATION REPORT

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Governor

8 AUGUST 2024

ANKARA



Outline

- **Global Economy**
- **Macroeconomic Outlook**
- **Monetary Policy**
- **Medium-Term Projections**
- **Overview**

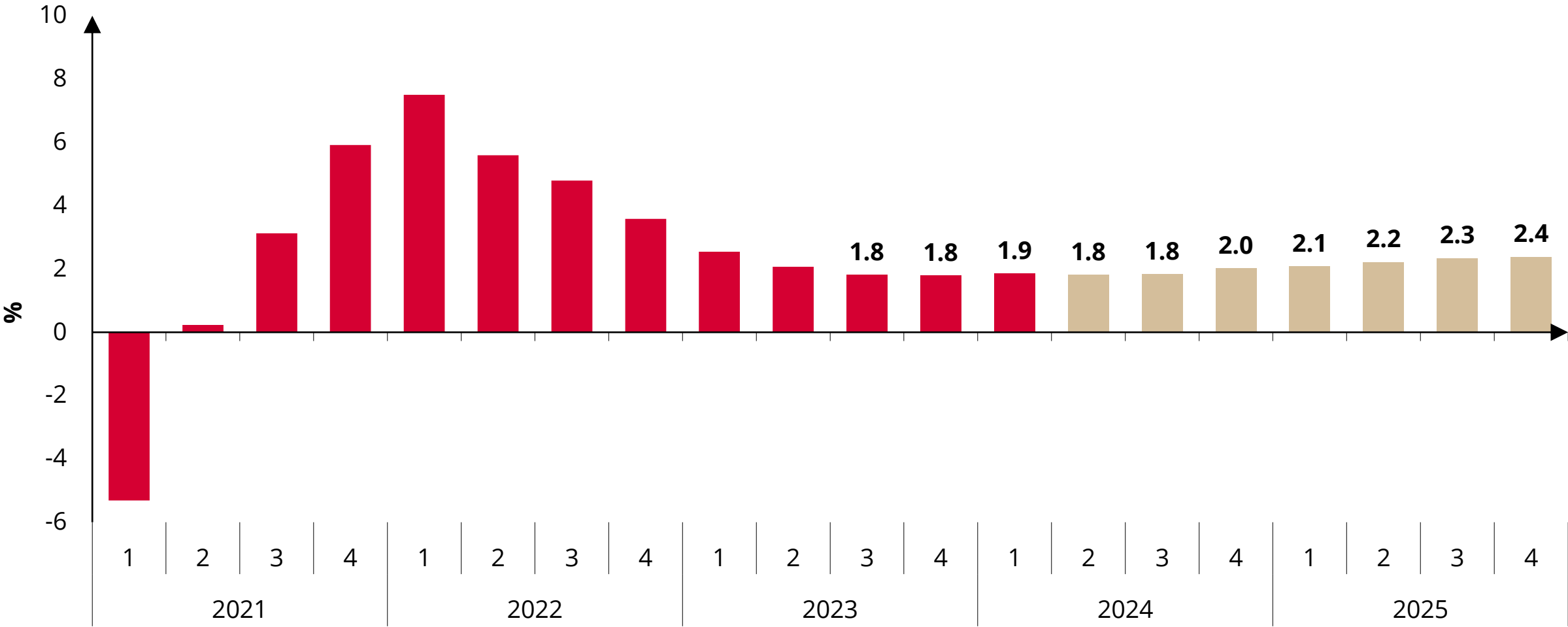
Boxes

- Findings from Interviews with Firms
- Real Sector Inflation Expectations and Borrowing Behavior
- Developments on Turkish Lira Liquidity and Sterilization Tools
- The Relation Between Credits and Exports Using Firm Level Data
- Determinants of Sectoral Inflation Expectations

GLOBAL ECONOMY

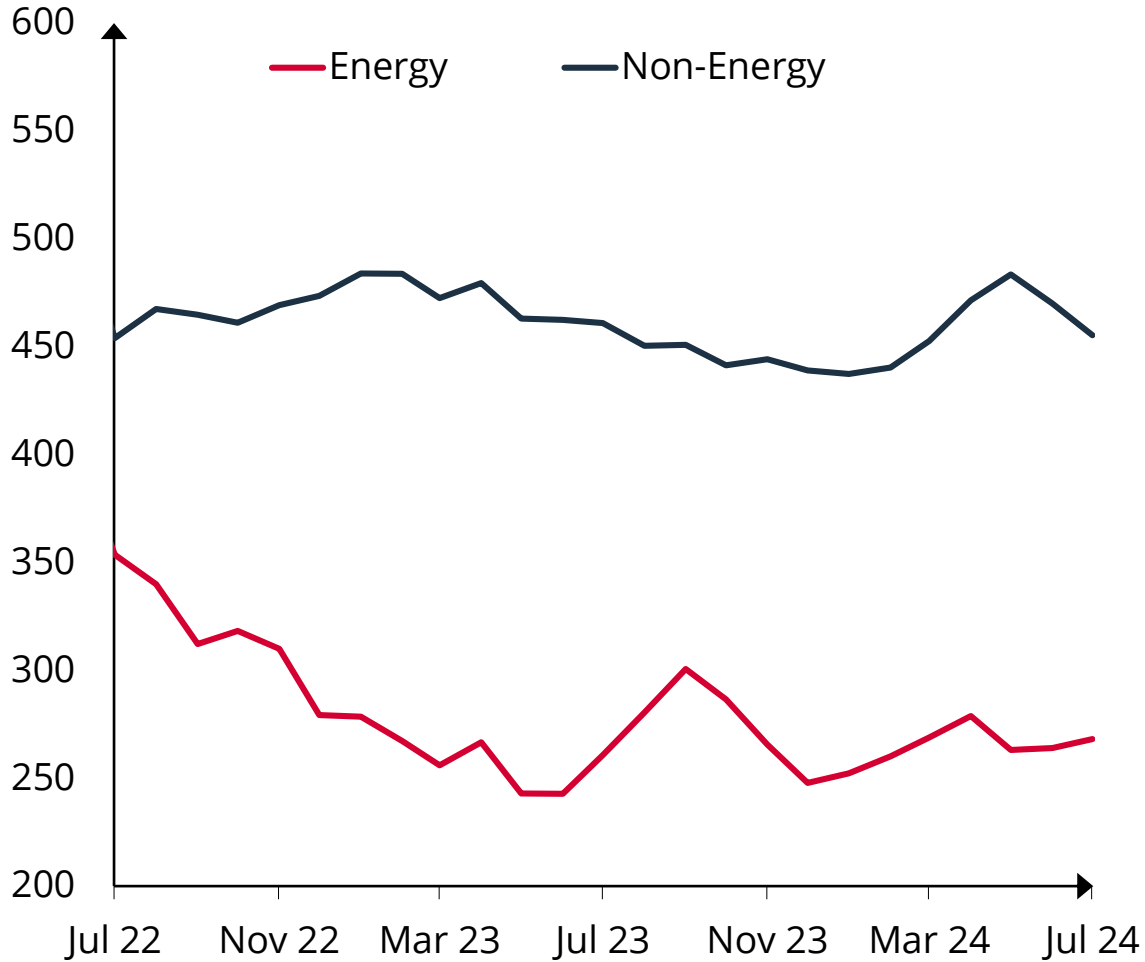
Global growth is expected to recover gradually in 2024 and more prominently in 2025.

Export Weighted Global Growth*

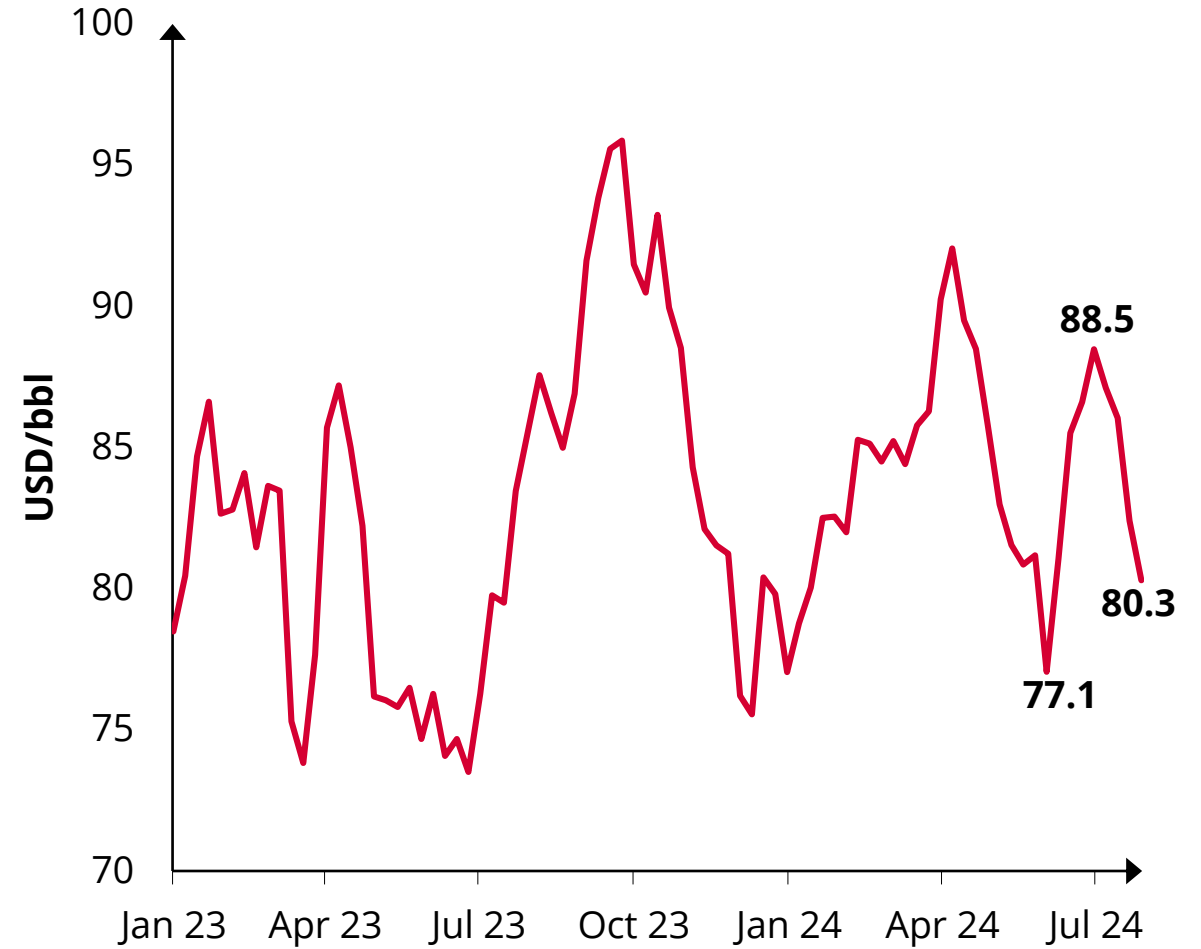


Energy prices have followed a volatile course recently.

Commodity Price Indices*

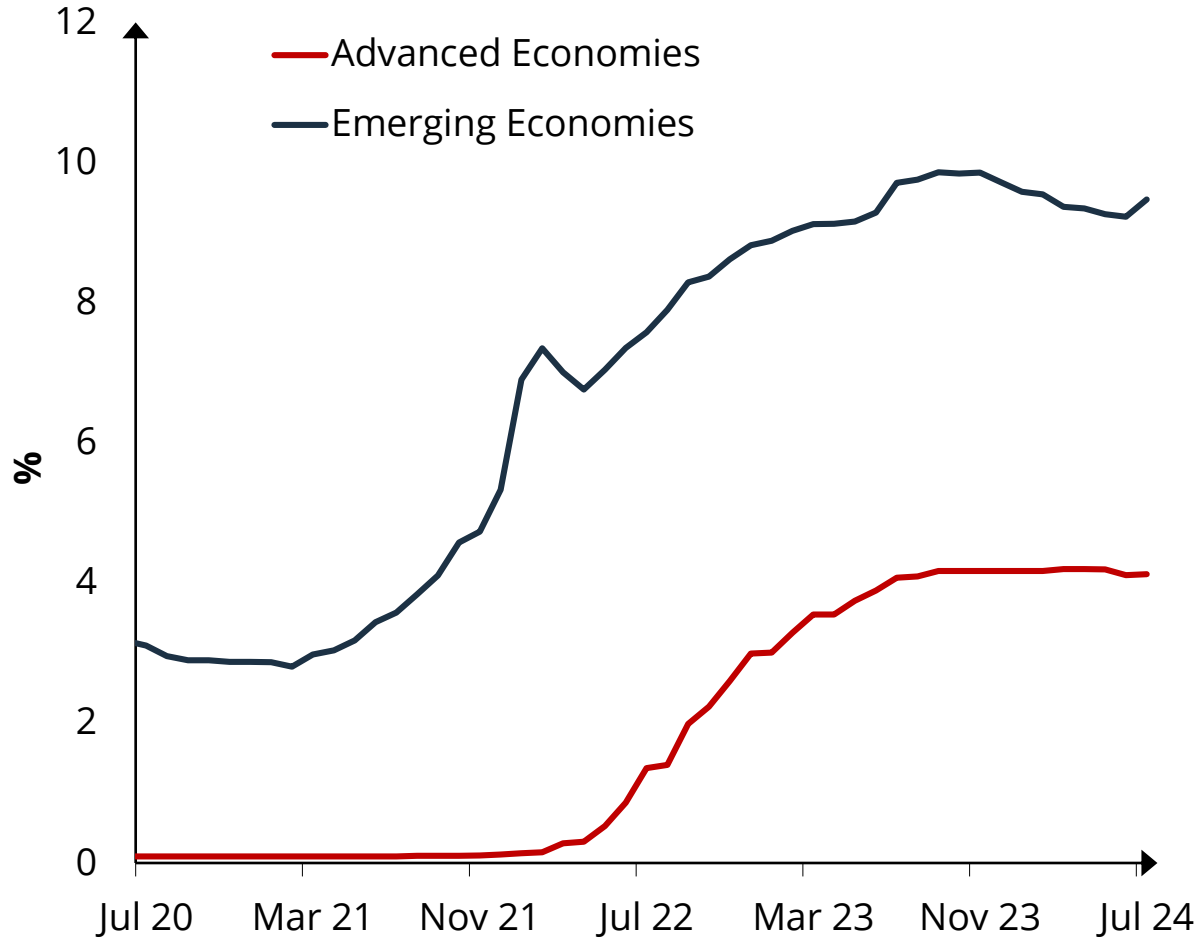


Brent Oil Price**

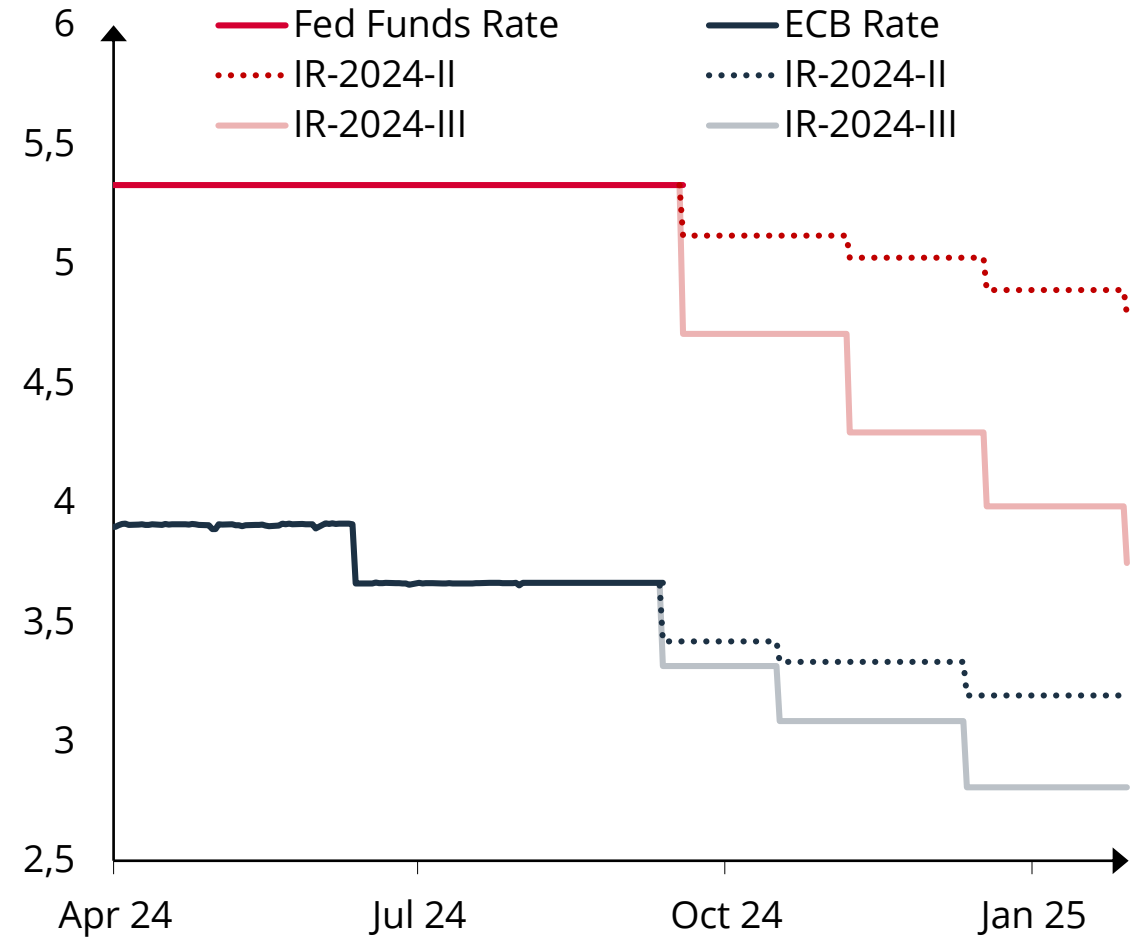


Central banks are expected to be cautious in their easing cycles.

Policy Rates*



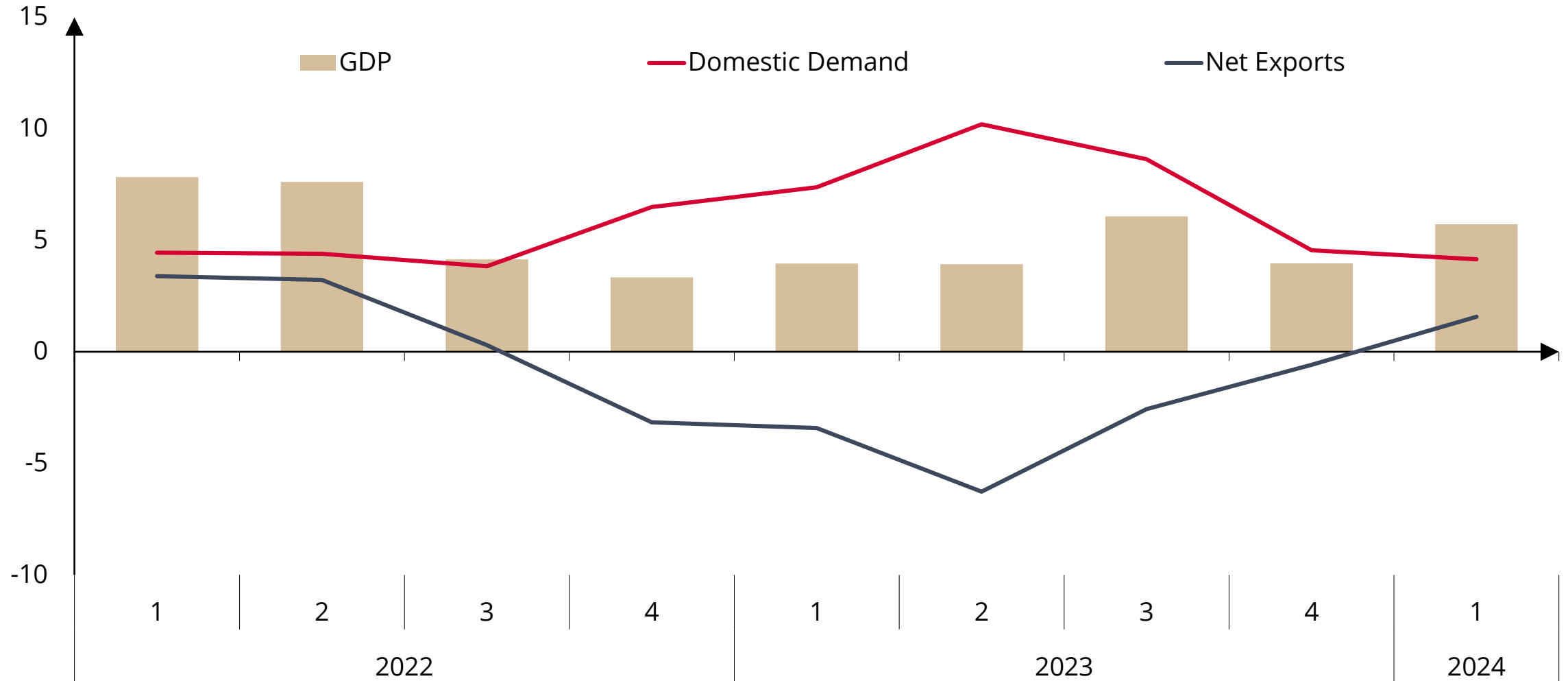
Market Implied Policy Rates (Effective)



ECONOMIC ACTIVITY

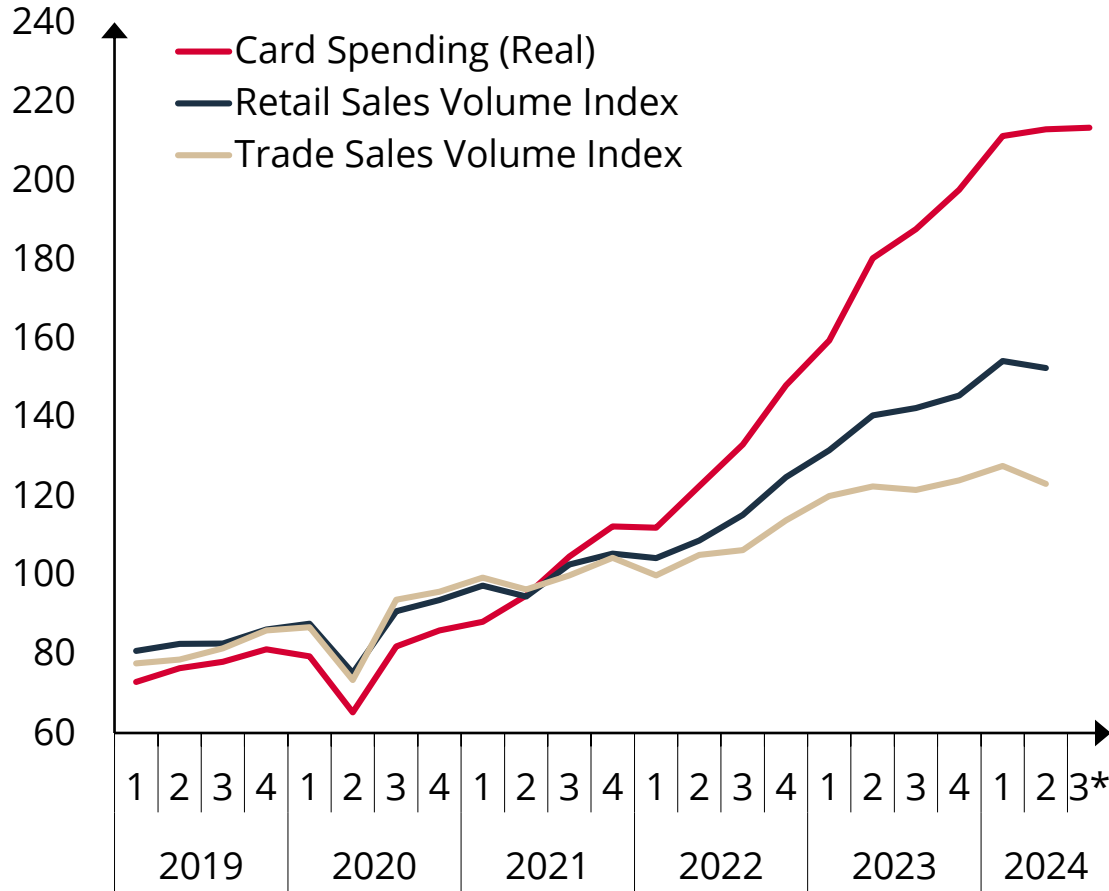
A more balanced demand outlook was observed in the first quarter.

Contributions to Annual Growth from the Expenditure Side
(Percentage Points)



Domestic demand has been slowing down.

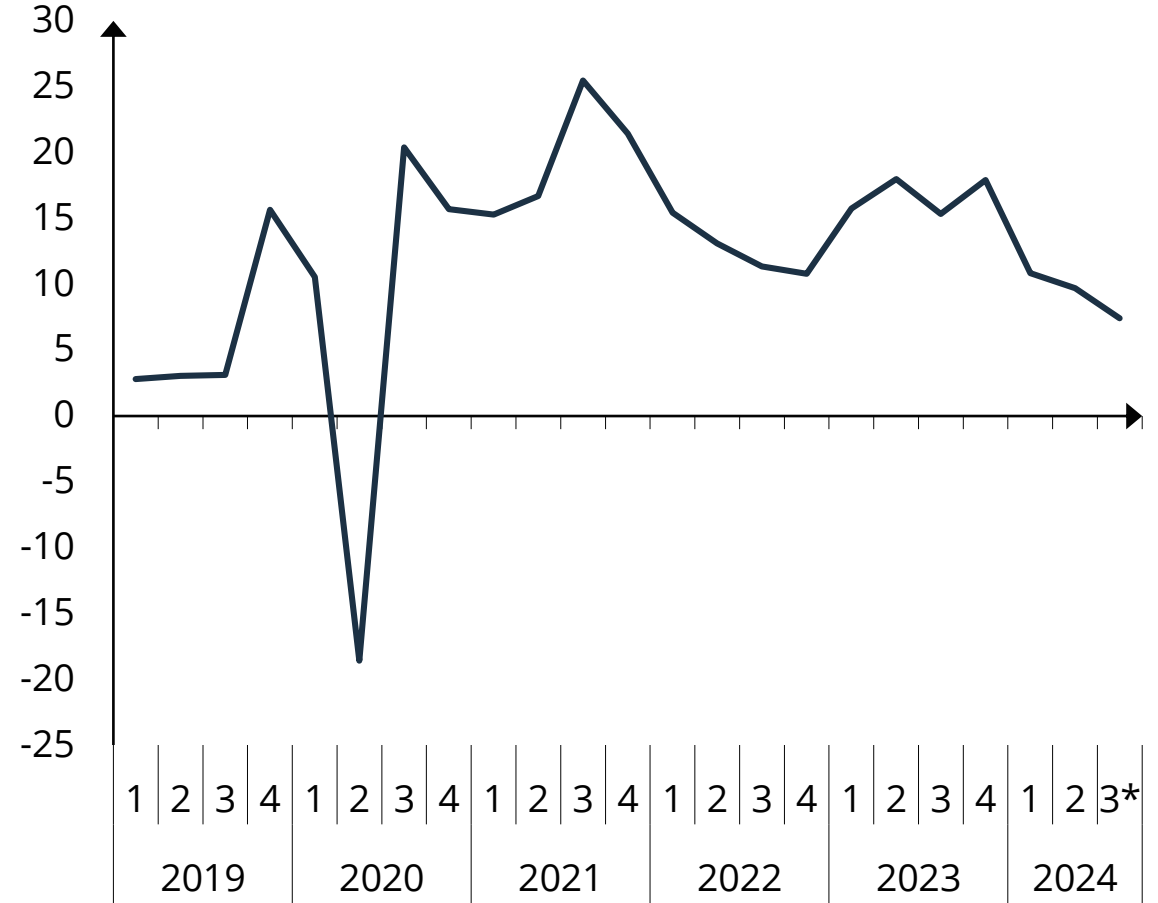
Consumption Indicators
(Seasonally and Calendar Adjusted, 2021=100)



Source: CBRT, TURKSTAT.

* Retail sales and trade sales volume indices are the average of April-May. Card spending data is as of July. In real terms, deflated by CPI and indexed to 2021=100.

Business Tendency Survey Domestic Order Expectations
(Seasonally Adjusted, Up-Down, %)

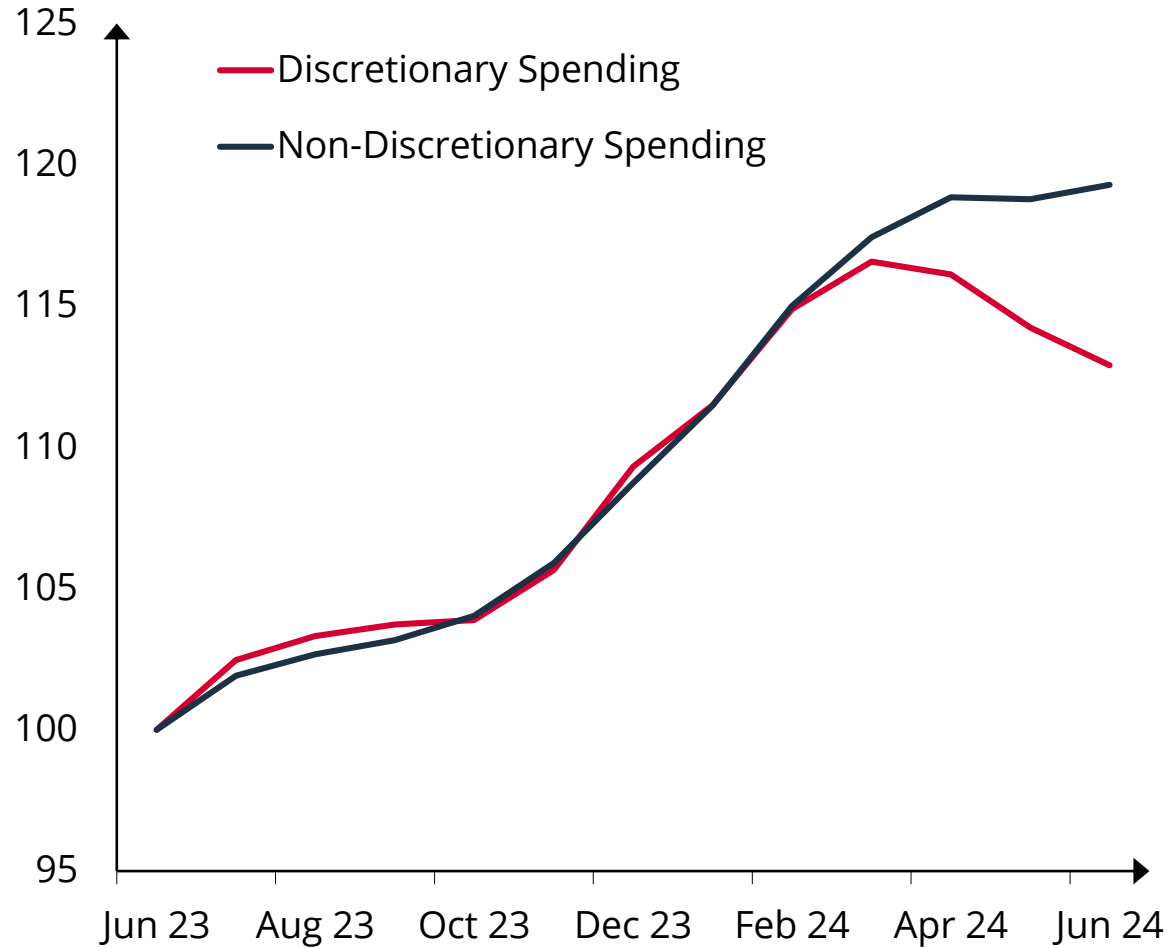


Source: CBRT

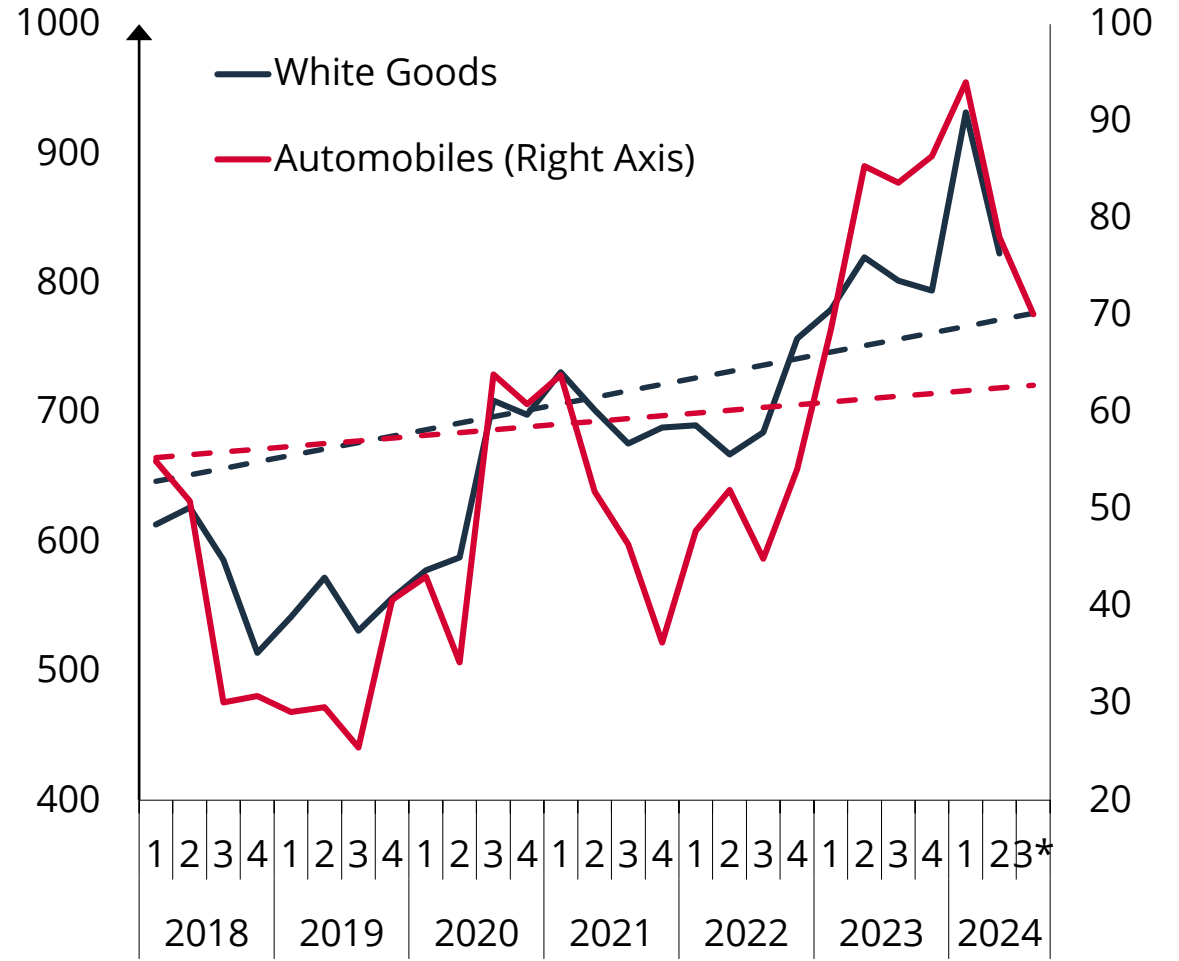
* As of July.

Card spending, white goods and automobile sales confirm the slowdown.

Card Spending After Tightening
(Seasonally and Calendar Adjusted, 3-Month MA, Tightening Start=100)

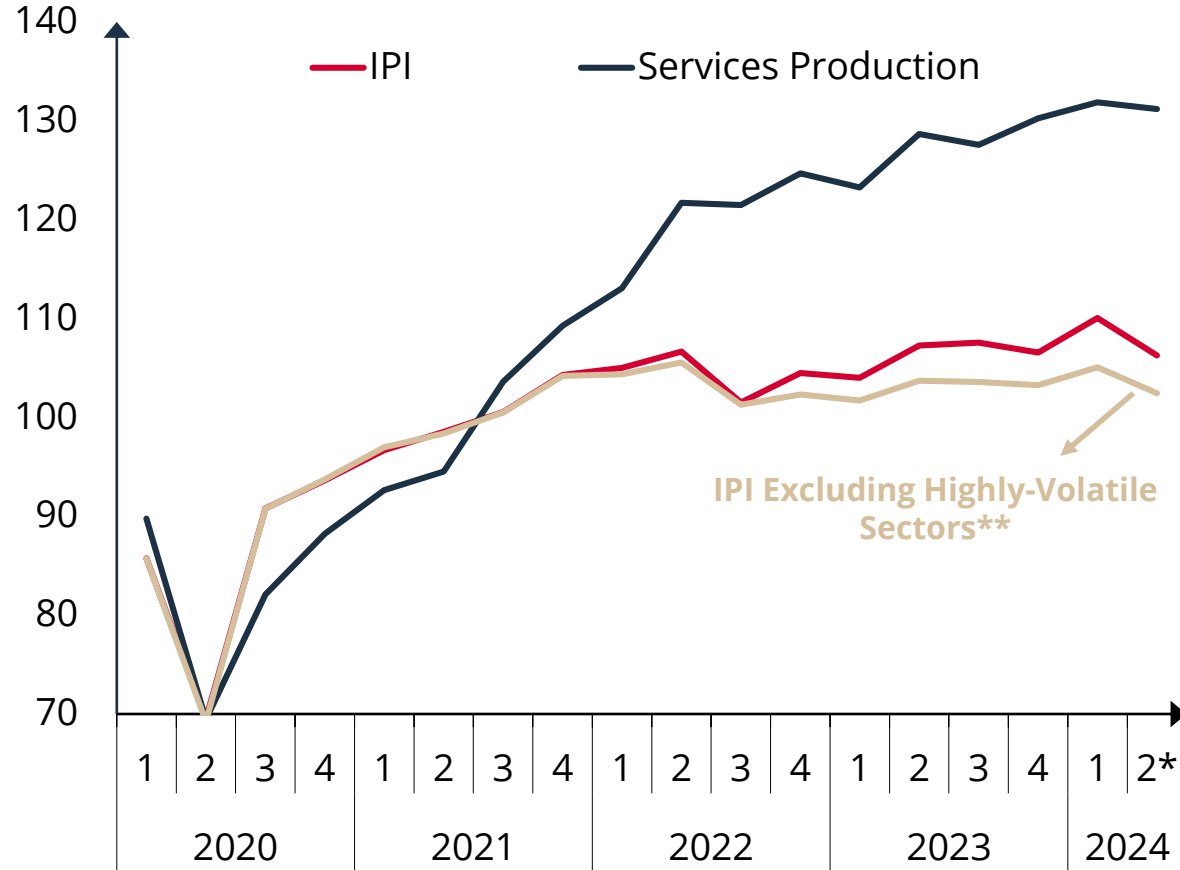


White Goods and Automobile Sales
(Thousand Units, Seasonally and Calendar Adjusted)

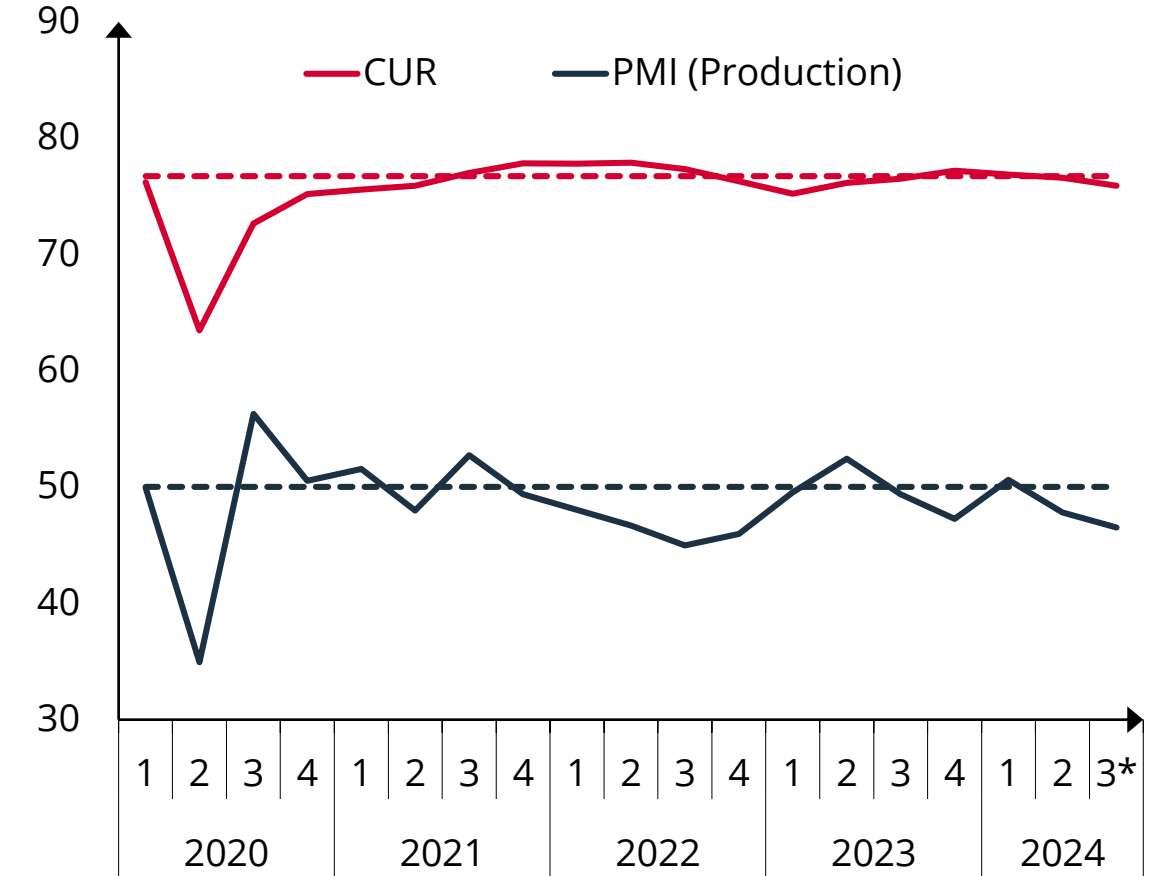


Supply conditions are in line with the demand outlook.

**Industrial Production and Services Production Indices
(Seasonally and Calendar Adjusted, 2021=100)**



**Capacity Utilization Rate (Seasonally Adjusted, %)
and PMI Production (Seasonally Adjusted, Level)**



Source: CBRT, TURKSTAT.

*Average of April-May.

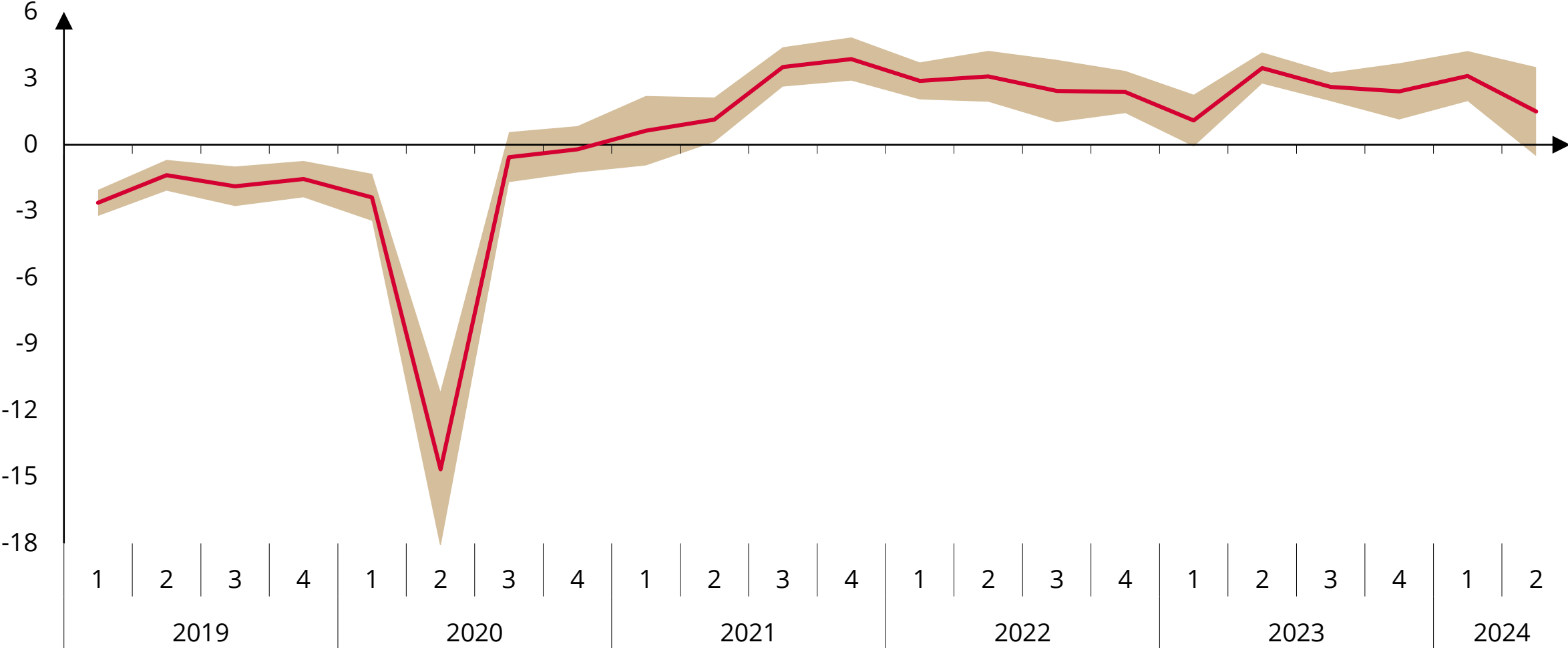
** Industrial production excluding the typically volatile sectors: recorded media, computer-optics, basic pharmaceuticals and other transportation.

Source: CBRT, S&P Global.

*As of July. Dashed lines show the average of capacity utilization rate for 2011-2019 period, and the threshold value (50) for PMI (Production).

The output gap is estimated to have narrowed in the second quarter.

Output Gap*

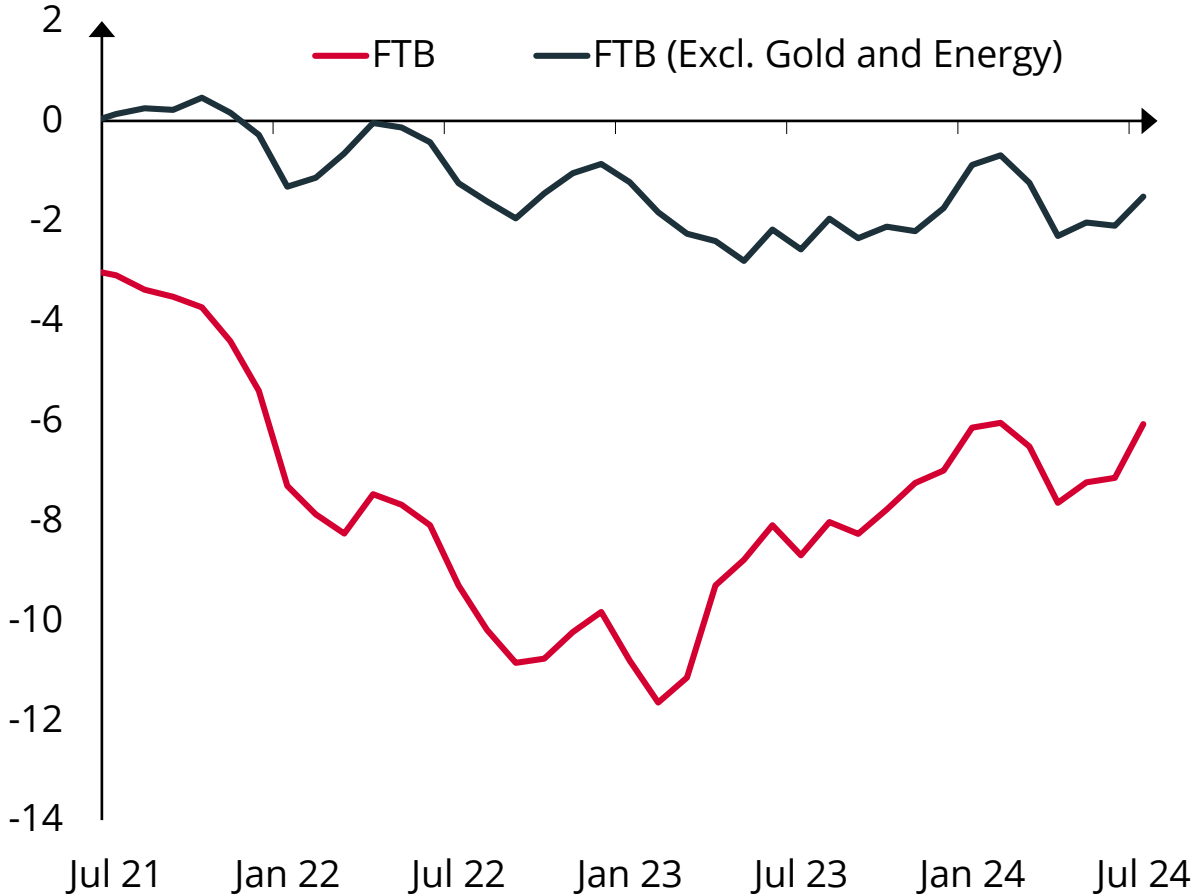


Source: CBRT.

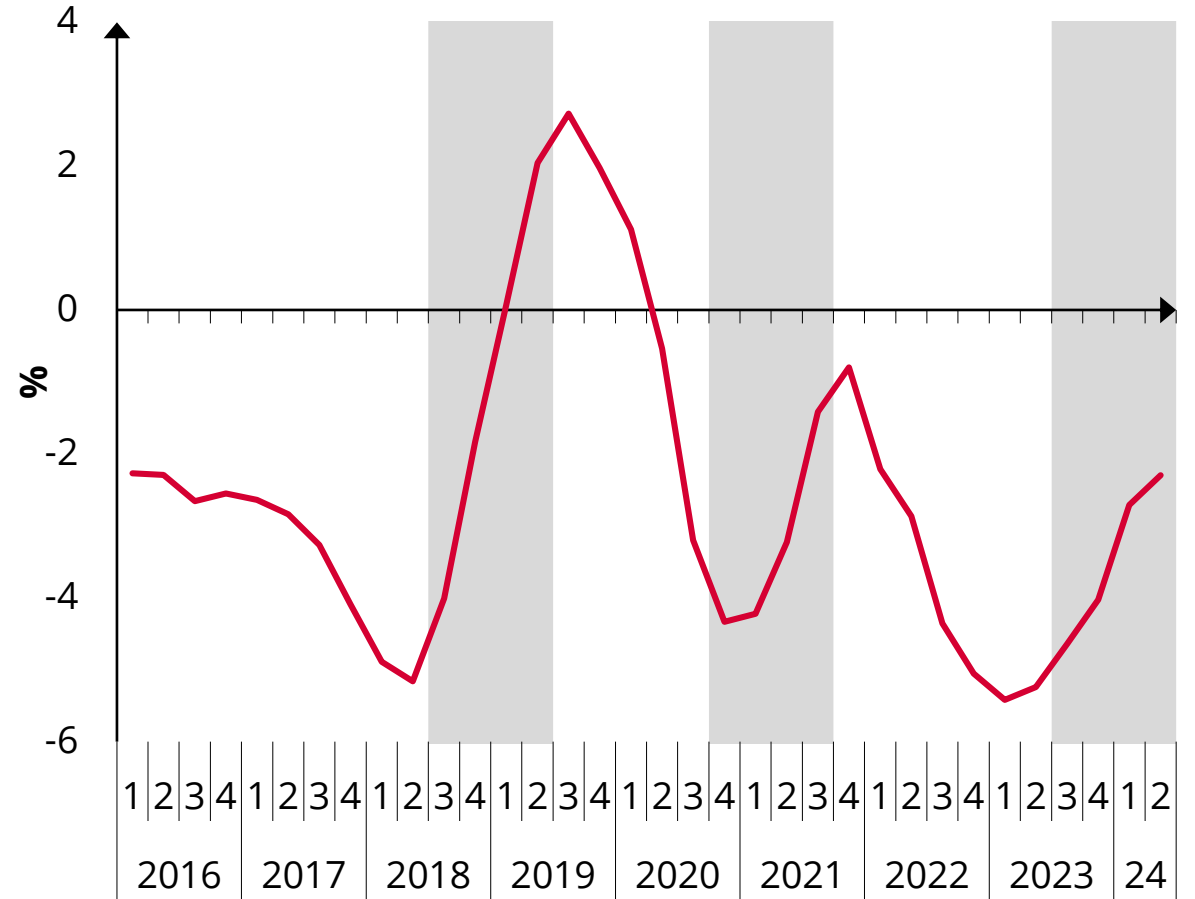
* Shown with a 95 percent confidence interval based on eight output gap indicators calculated by different methods.

The improvement in the current account balance continues.

Foreign Trade Balance (FTB)*
(Seasonally and Calendar Adjusted, Billion Dollars, 3-Month MA)



Current Account Balance/GDP*



Source: TURKSTAT, Ministry of Trade, CBRT.
*July 2024 (Provisionary).

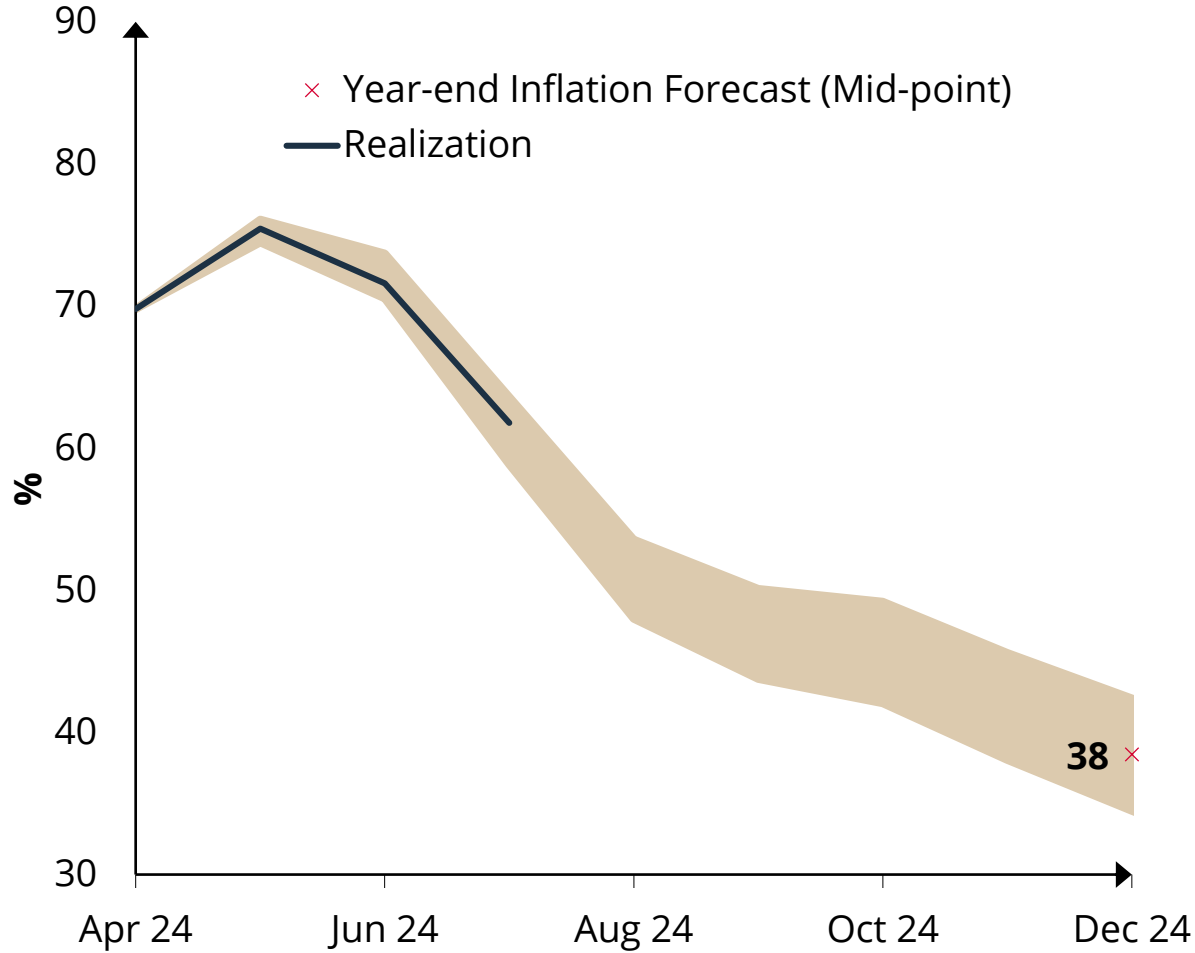
Source: CBRT, TURKSTAT.

* Shaded areas indicate the monetary tightening periods defined by the difference between the lowest and highest values of the 1-week repo rate in the corresponding time intervals. Current account balance to GDP ratio of 2024-Q2 is forecast.

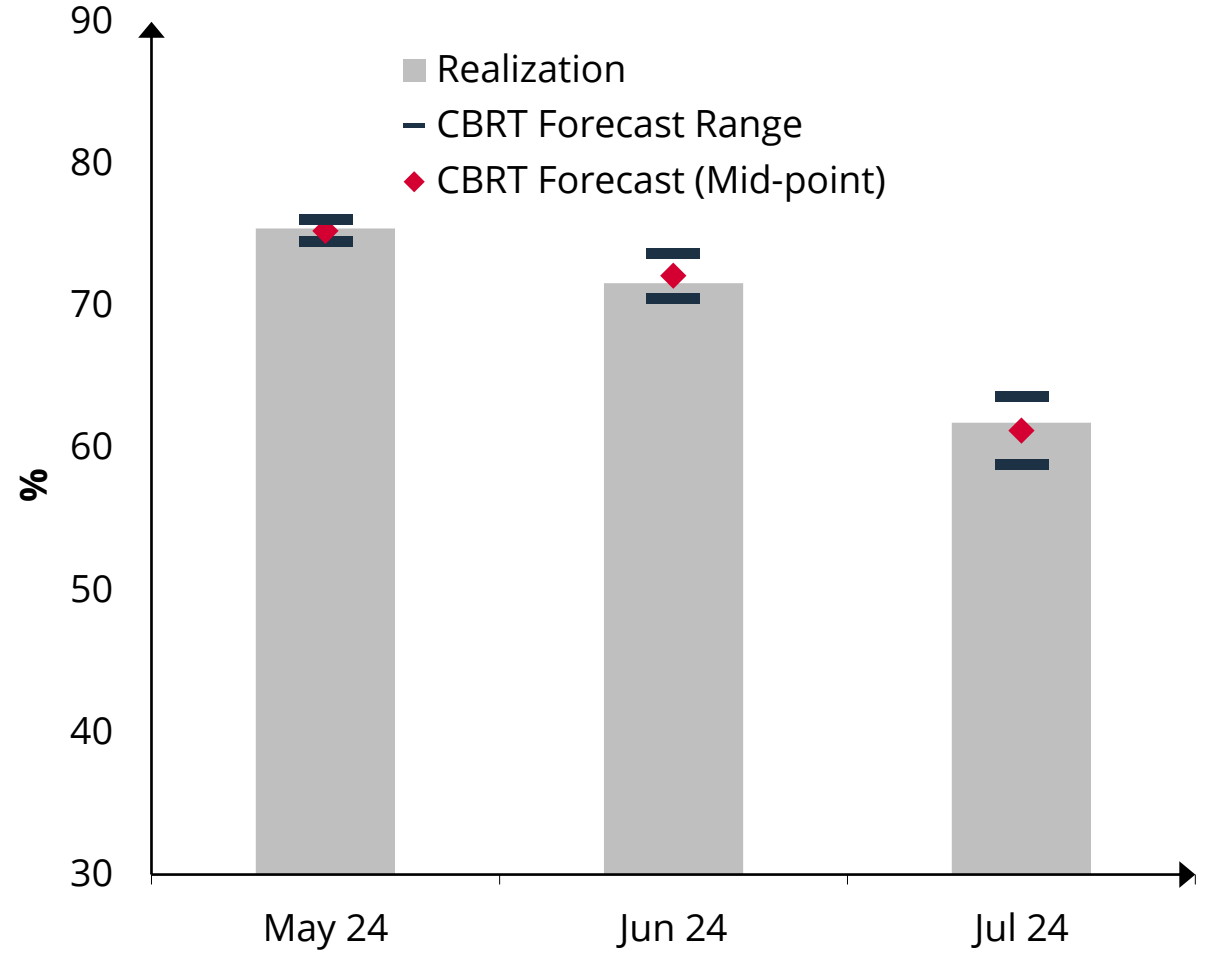
INFLATION

Consumer inflation remained within the forecast range.

Actual CPI and CBRT Forecast (IR 2024-II)
(Annual % Change)

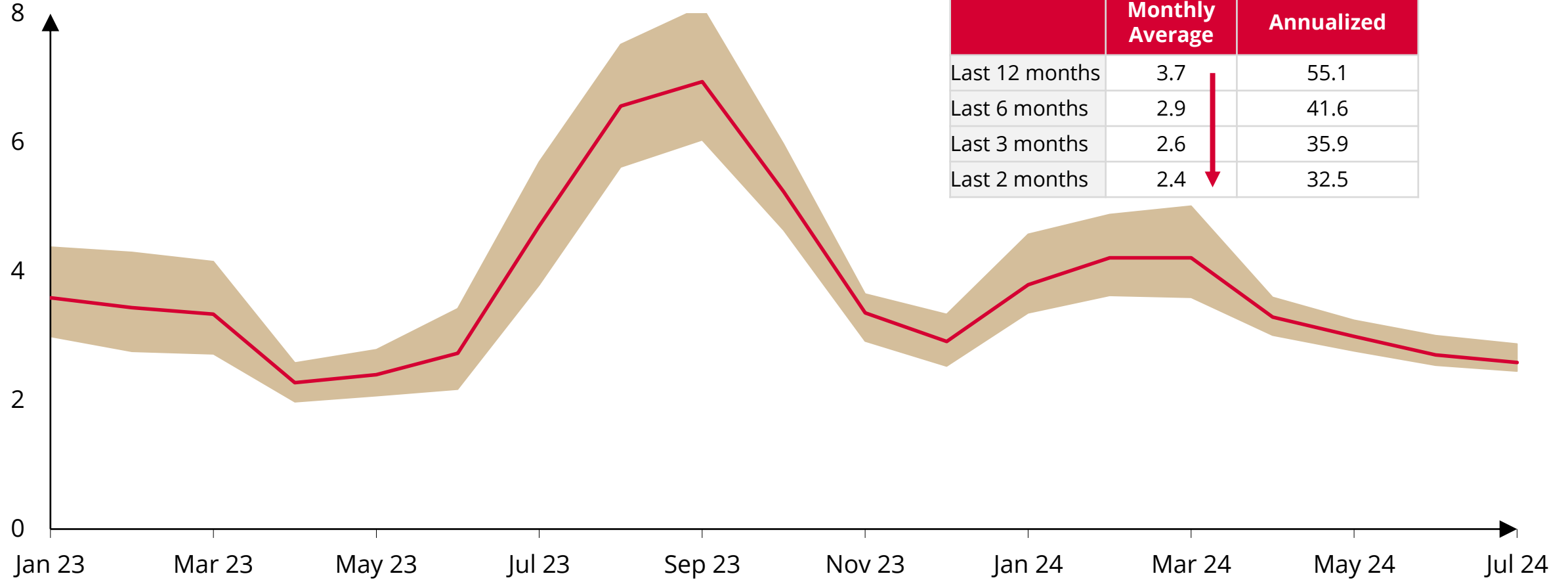


Actual CPI and CBRT Forecast (IR 2024-II)
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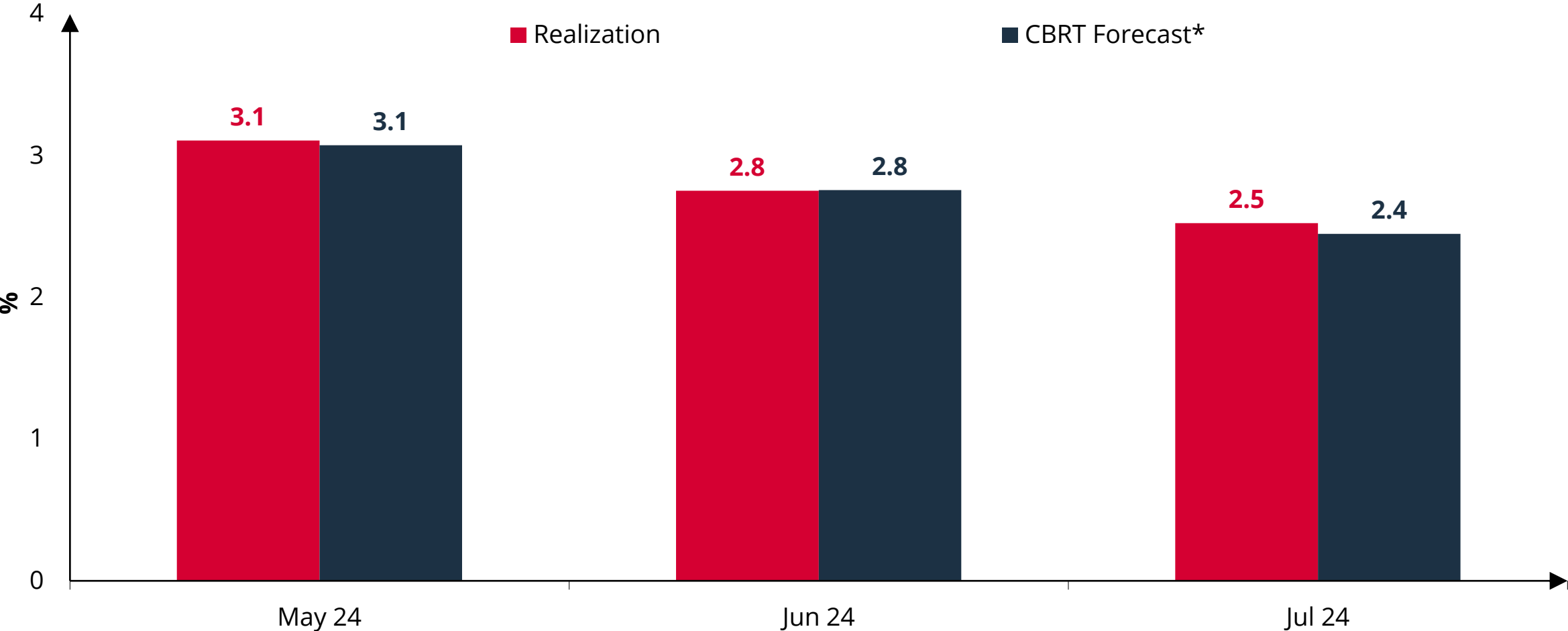
The slowdown in the underlying inflation continues.

Underlying Inflation Indicators*
(Seasonally Adjusted, Monthly % Change, 3 Month Average)



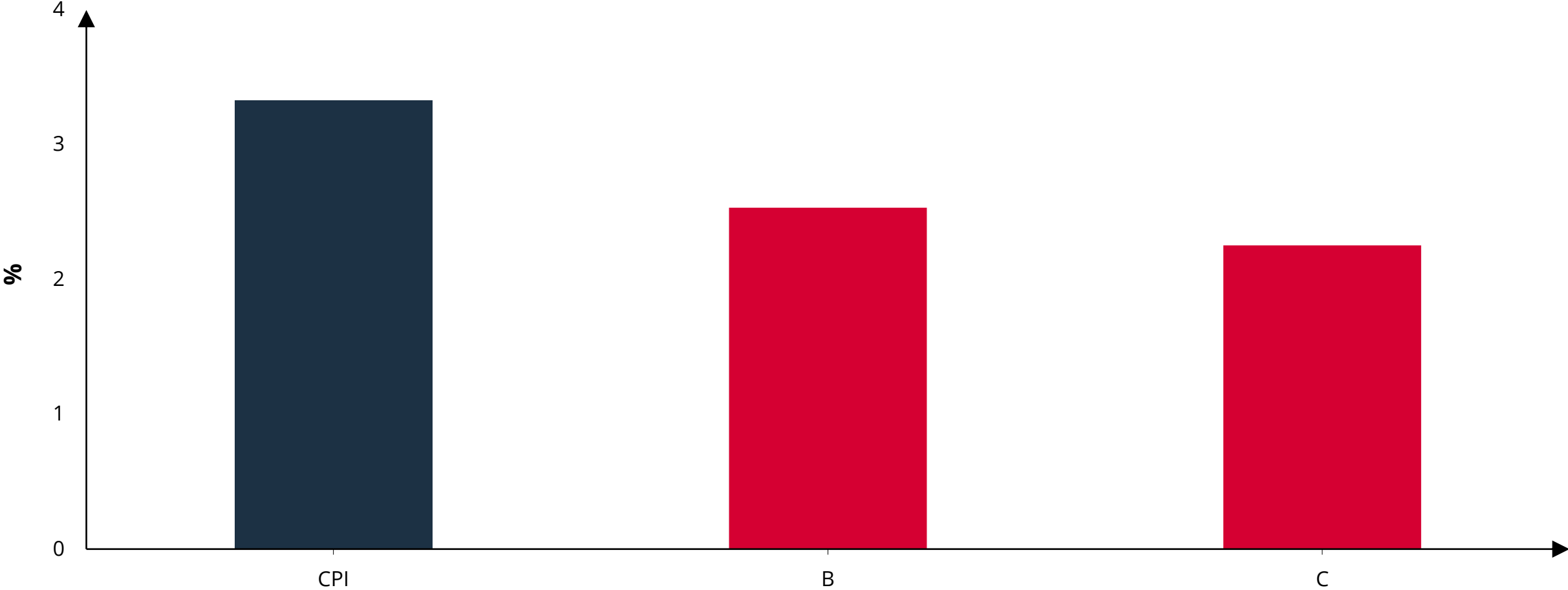
The slowdown in the underlying inflation is in line with projections.

Underlying Inflation Indicators
(Average of B and C Indices, Seasonally Adjusted, Monthly % Change, 3 Month Average)



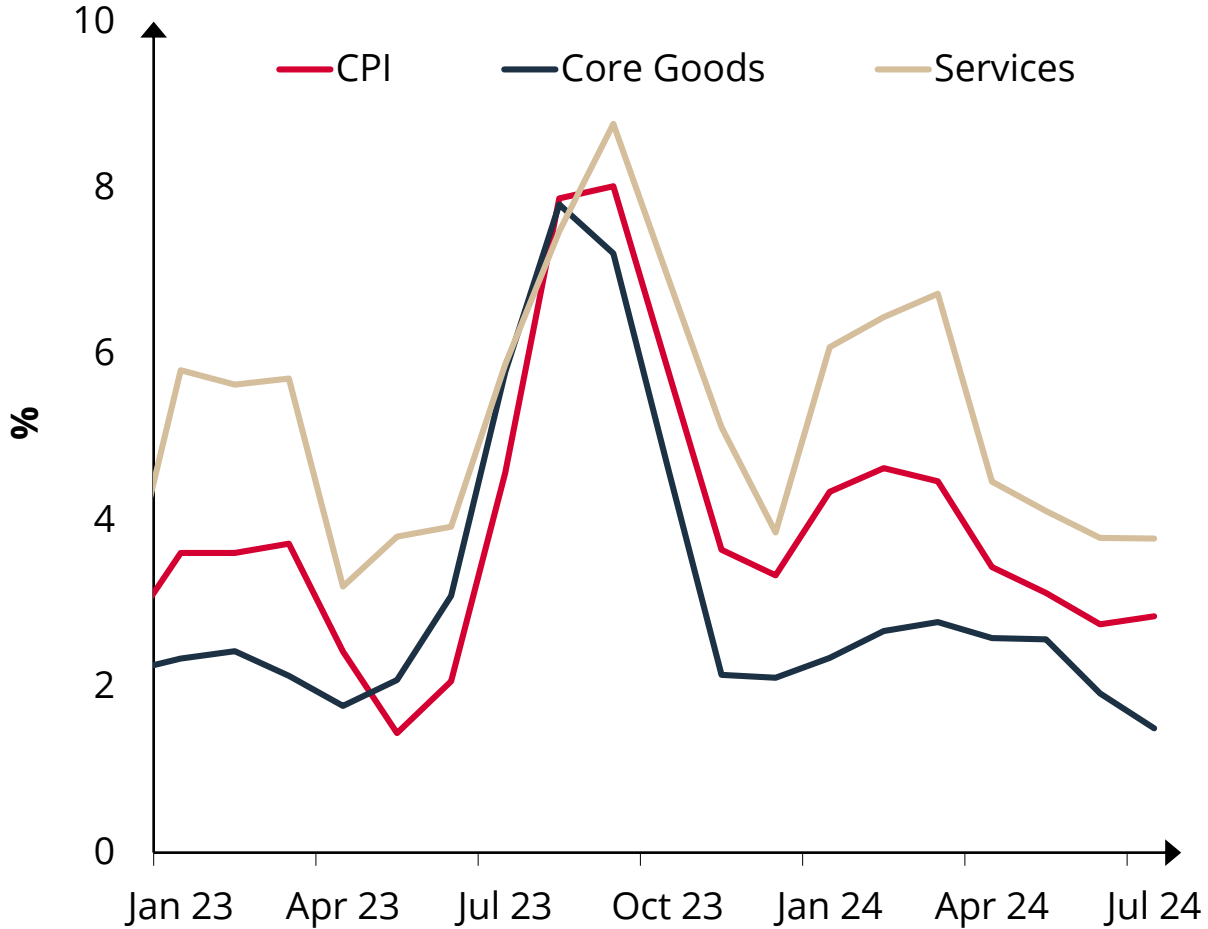
In July, the rise in core indicators is subdued compared to the headline figure.

CPI and Core Indicators
(July 2024, Seasonally Adjusted, Monthly % Change)



In the disinflation process, the slowdown in services inflation emerges with a lag.

Price Index
(Seasonally Adjusted, Monthly % Change, 3 Month Average)



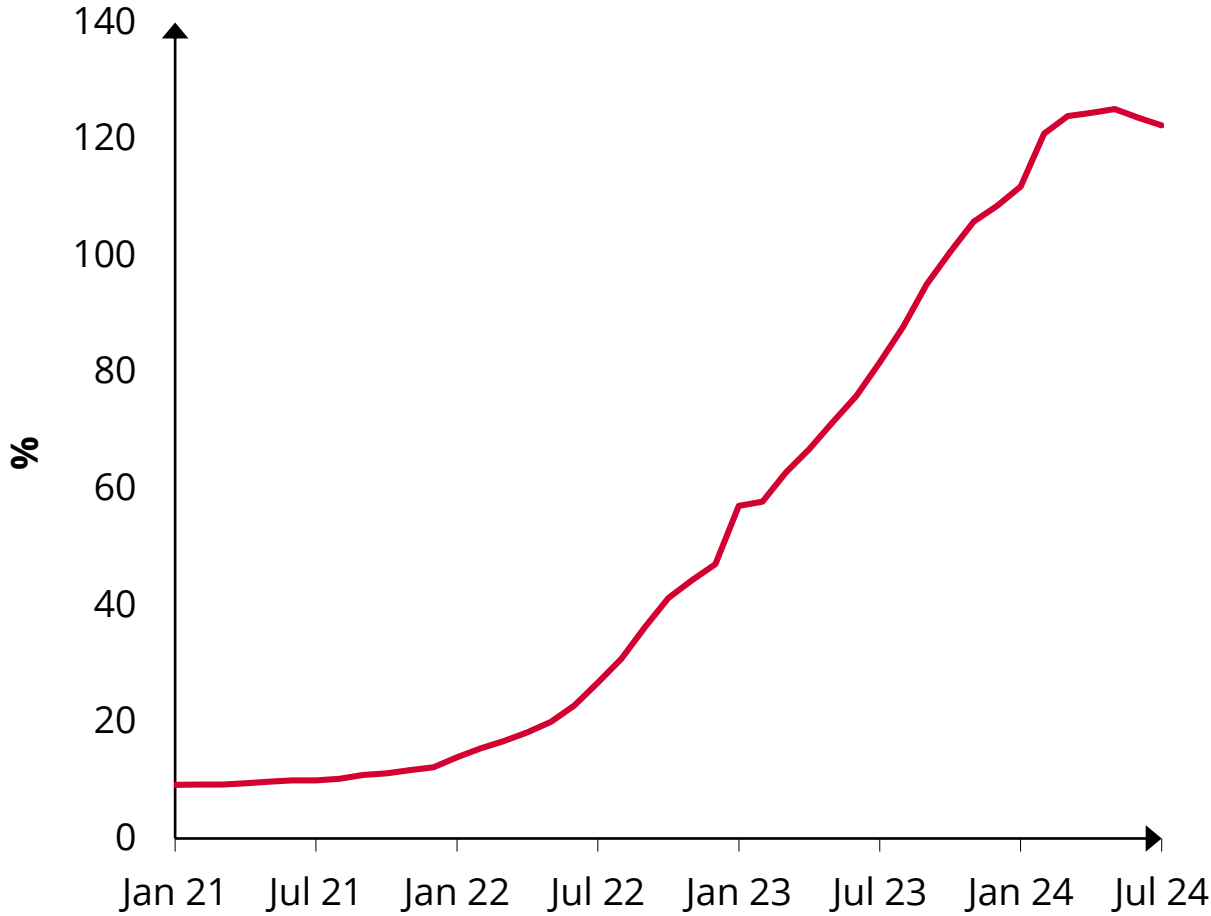
Inertia in CPI Sub-items*

| | Weight (%, 2024) | Inertia Coefficient |
|----------------------------|---------------------|------------------------|
| Services | 27.8 | 0.48 |
| Rent | 5.1 | 0.76 |
| Services Excluding Rent | 22.8 | 0.42 |
| Goods | 72.2 | 0.21 |
| CPI | 100 | 0.28 |

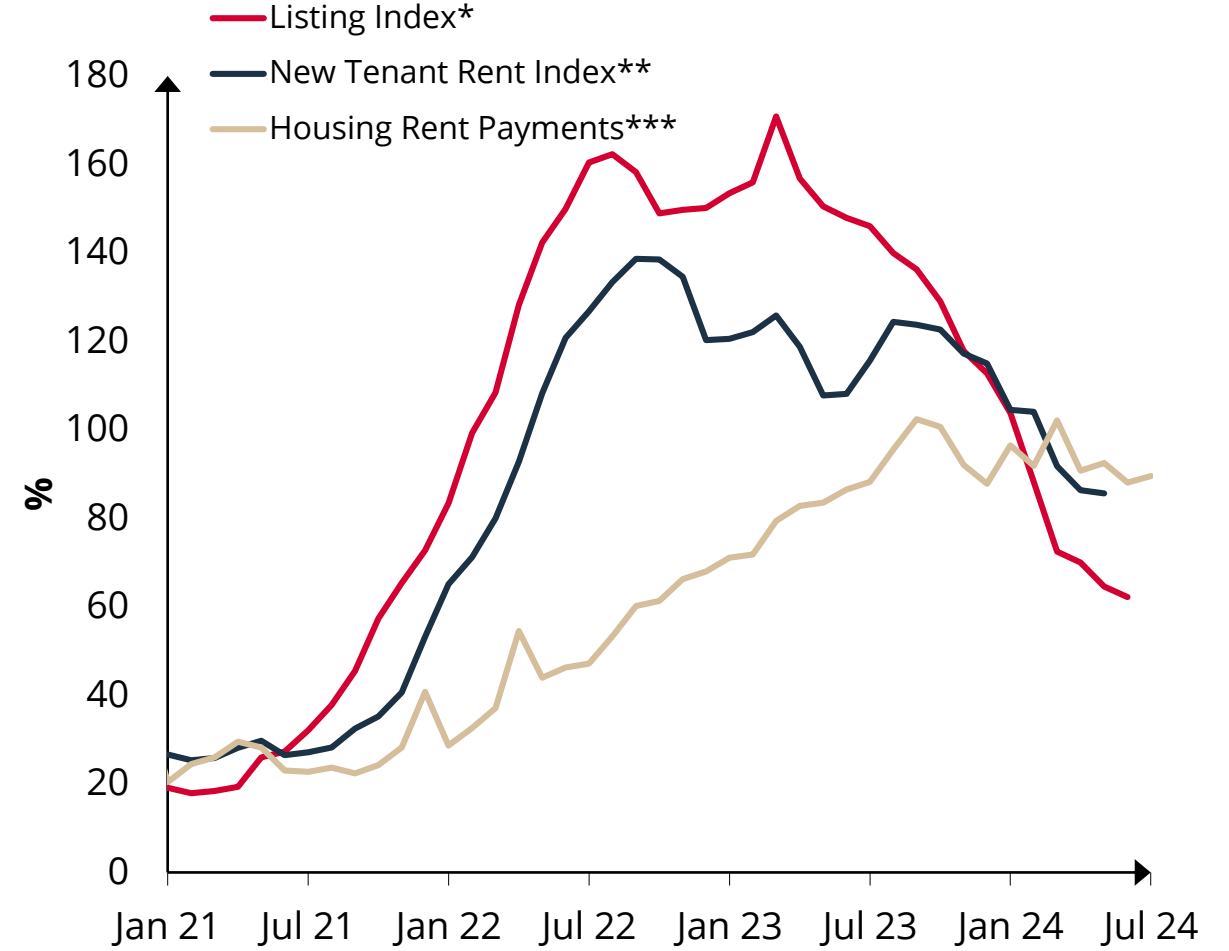
* Calculated based on the quarterly change in seasonally adjusted price indices. Sample Period: 2006Q2-2021Q3.
For more detailed information, "Inertia in Subcategories of Consumer Inflation", Inflation Report 2024-III, Zoom-In 2.3.

Leading indicators point to a decline in rent inflation for the upcoming months.

CPI Rent Inflation (Annual % Change)



Rent Inflation Indicators (Annual % Change)



Source: CBRT, Sahibinden.com, TURKSTAT.

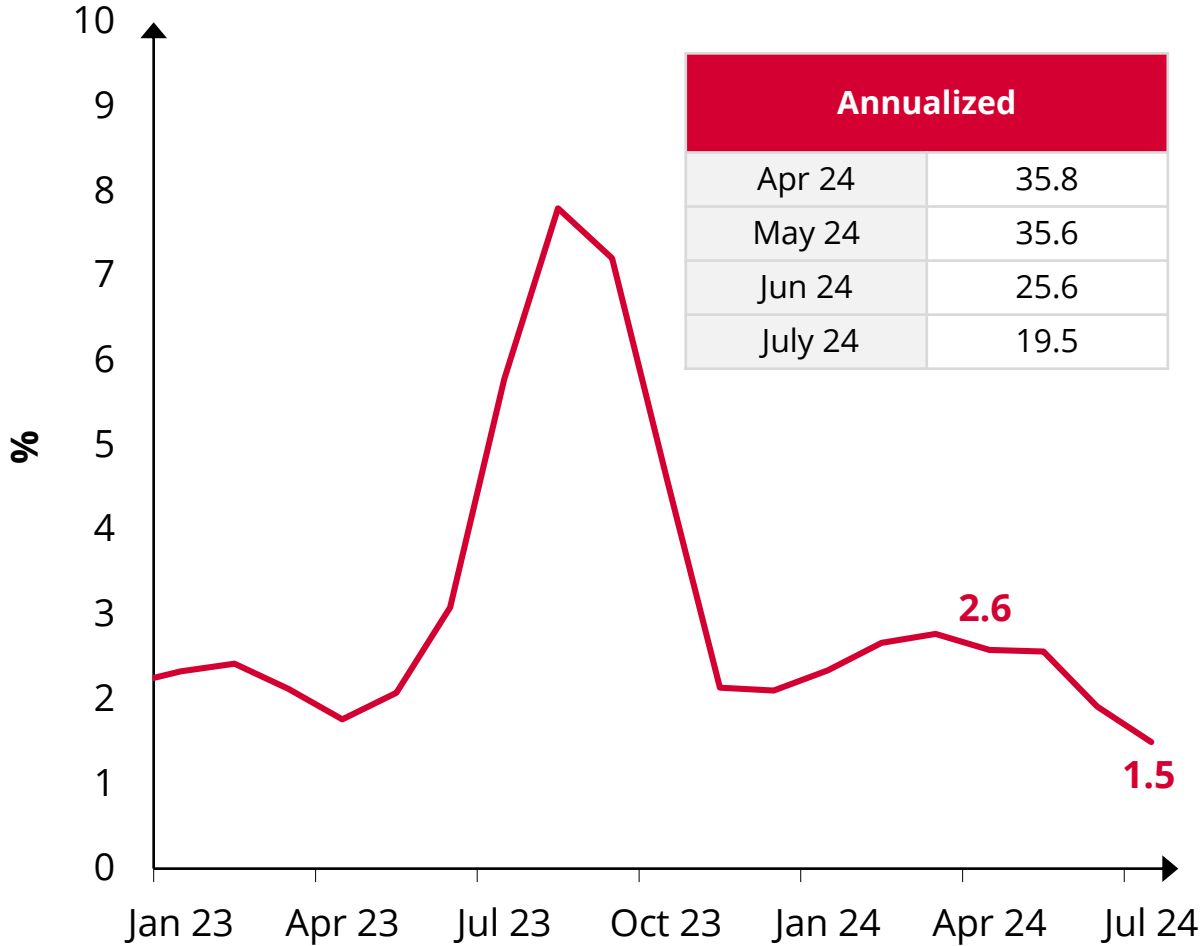
* It is constructed using rental prices (TL/m²) listed on Sahibinden.com for the three largest cities (İstanbul, Ankara and İzmir).

** It is an indicator related to expert opinions obtained from housing loans valuation reports, as a part of the CBRT House Price Index study.

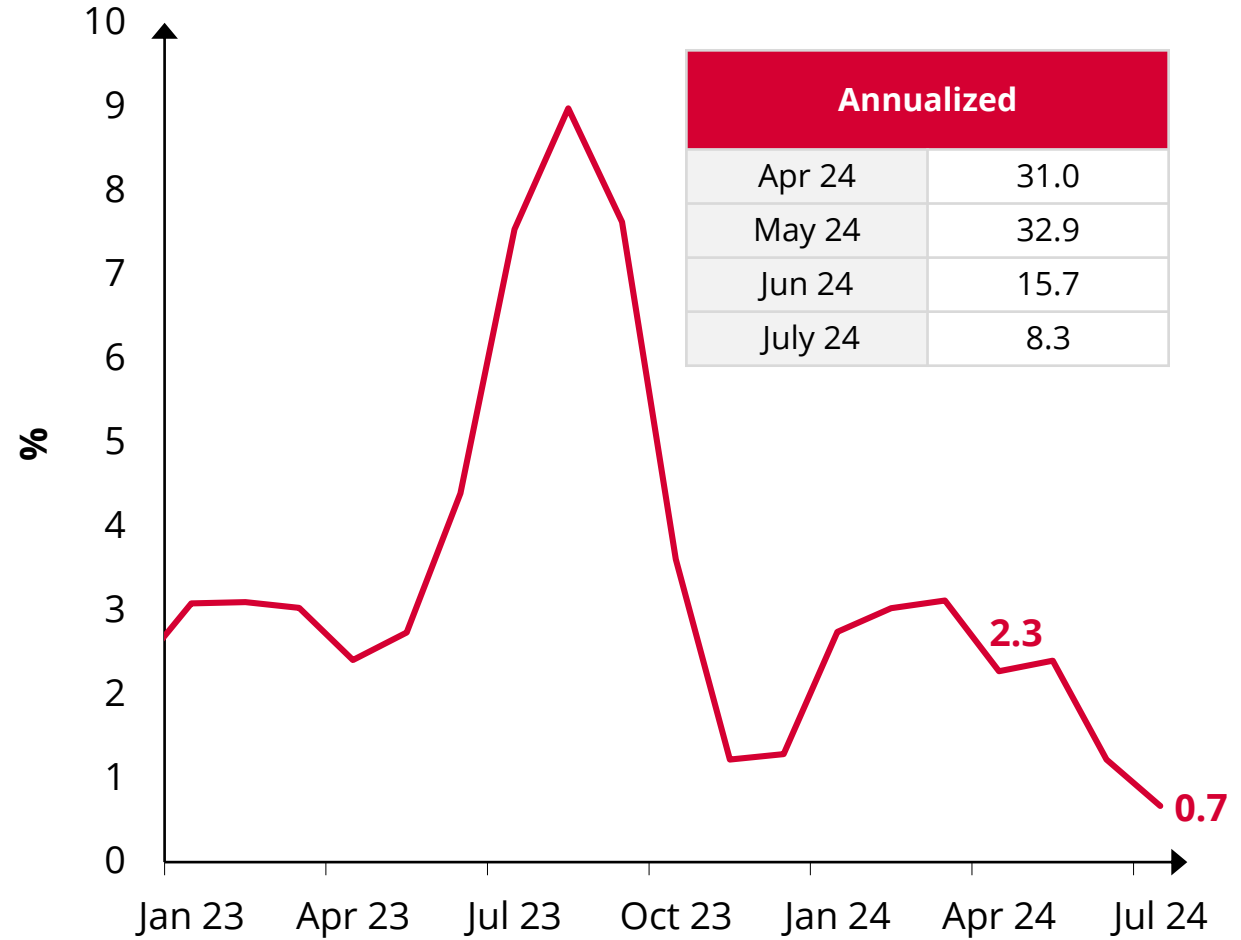
*** It is percentage change of new and renewed contracts compared to the previous contracts.

Core goods stand out in the slowdown of the underlying inflation.

Core Goods Prices
(Seasonally Adjusted, Monthly % Change, 3-Month Average)

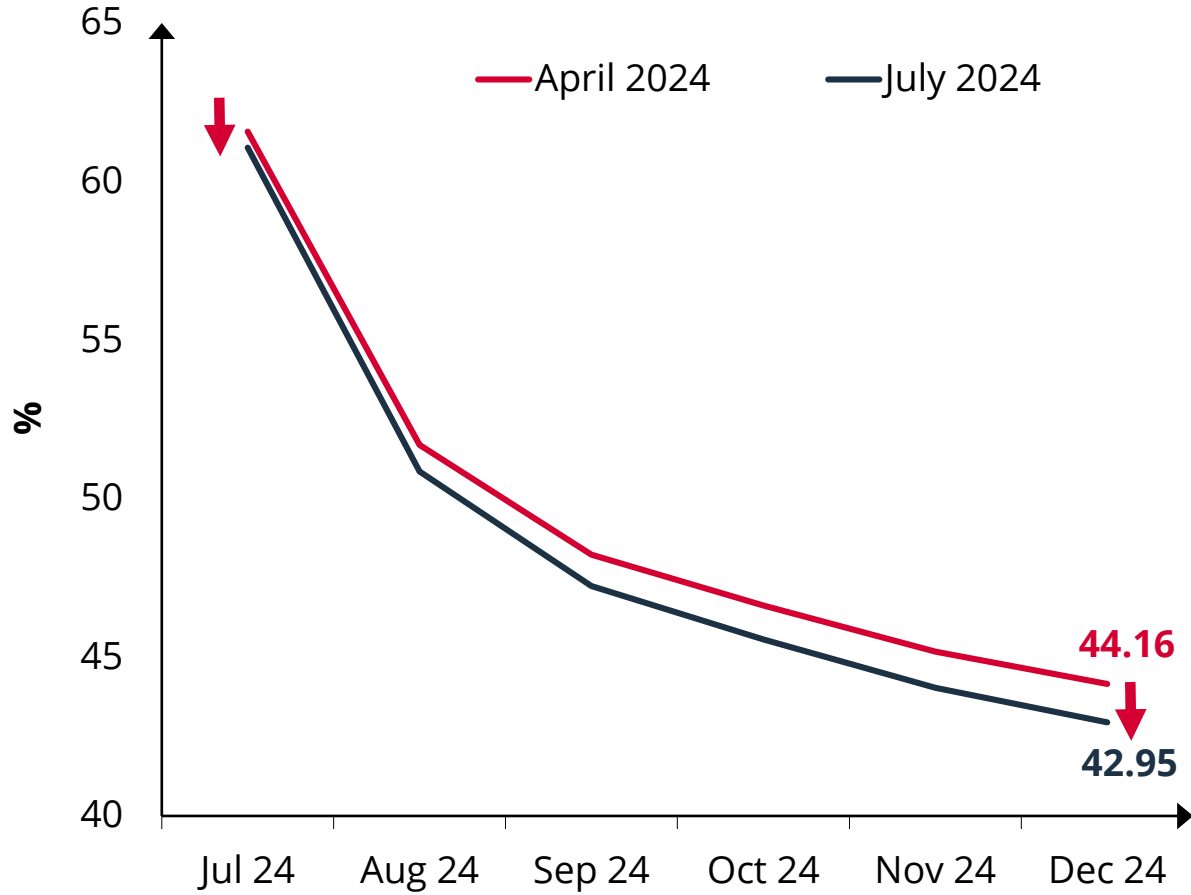


Durable Goods Prices*
(Seasonally Adjusted, Monthly % Change, 3-Month Average)

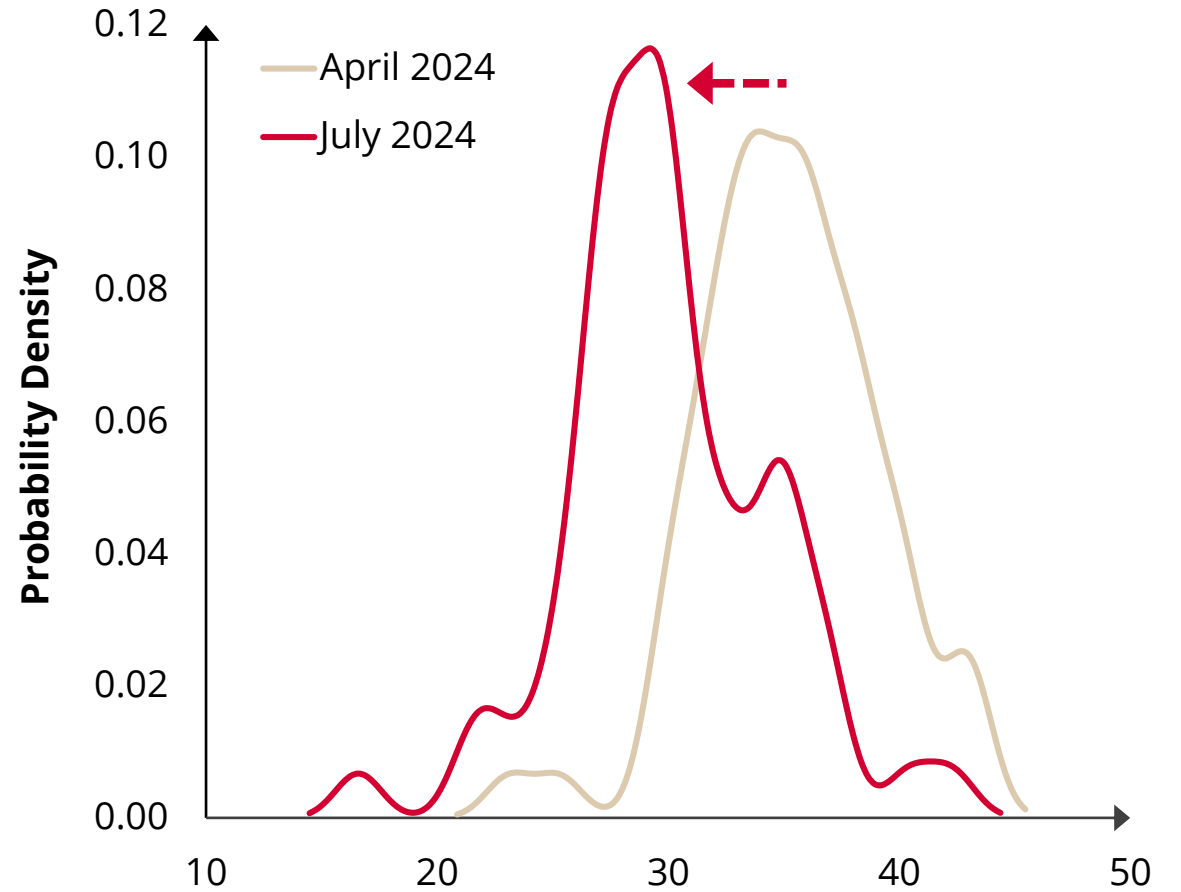


The impact of tight monetary policy on expectations is closely monitored.

Inflation Expectation Curve of Survey of Market Participants*

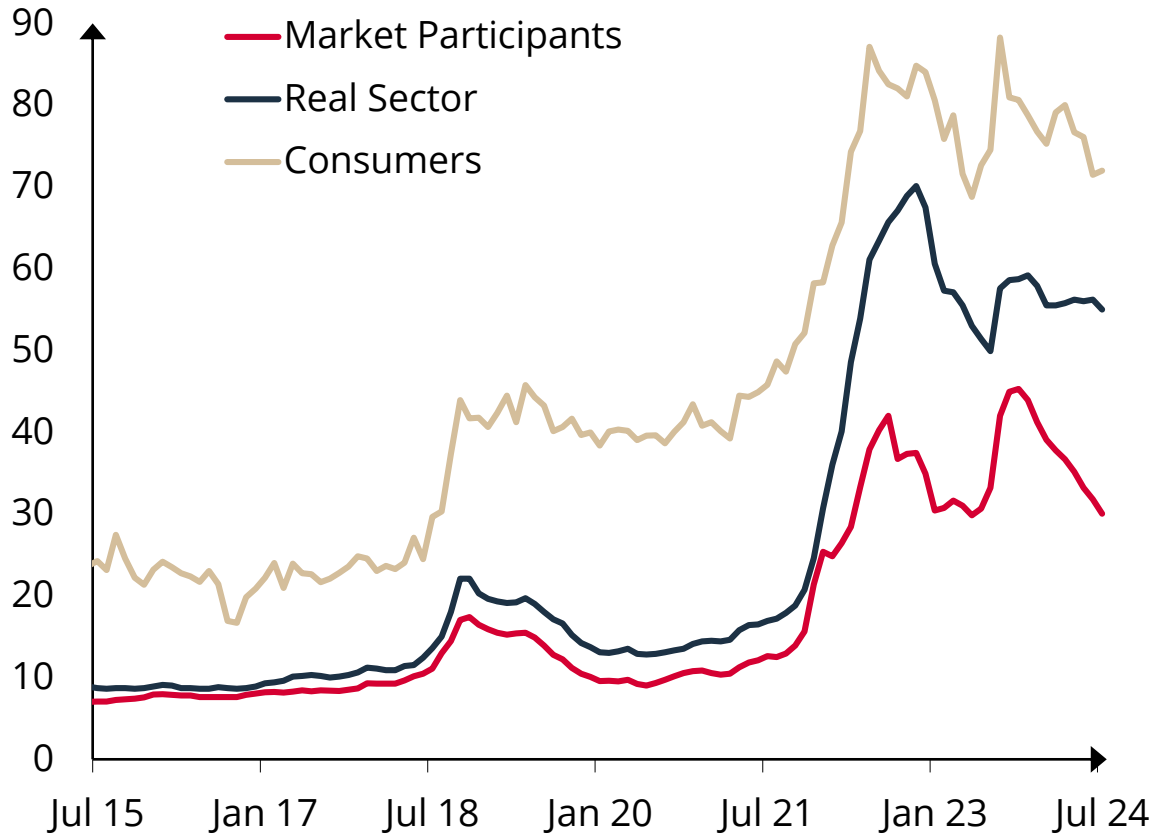


12-Month Ahead Annual CPI Expectations*

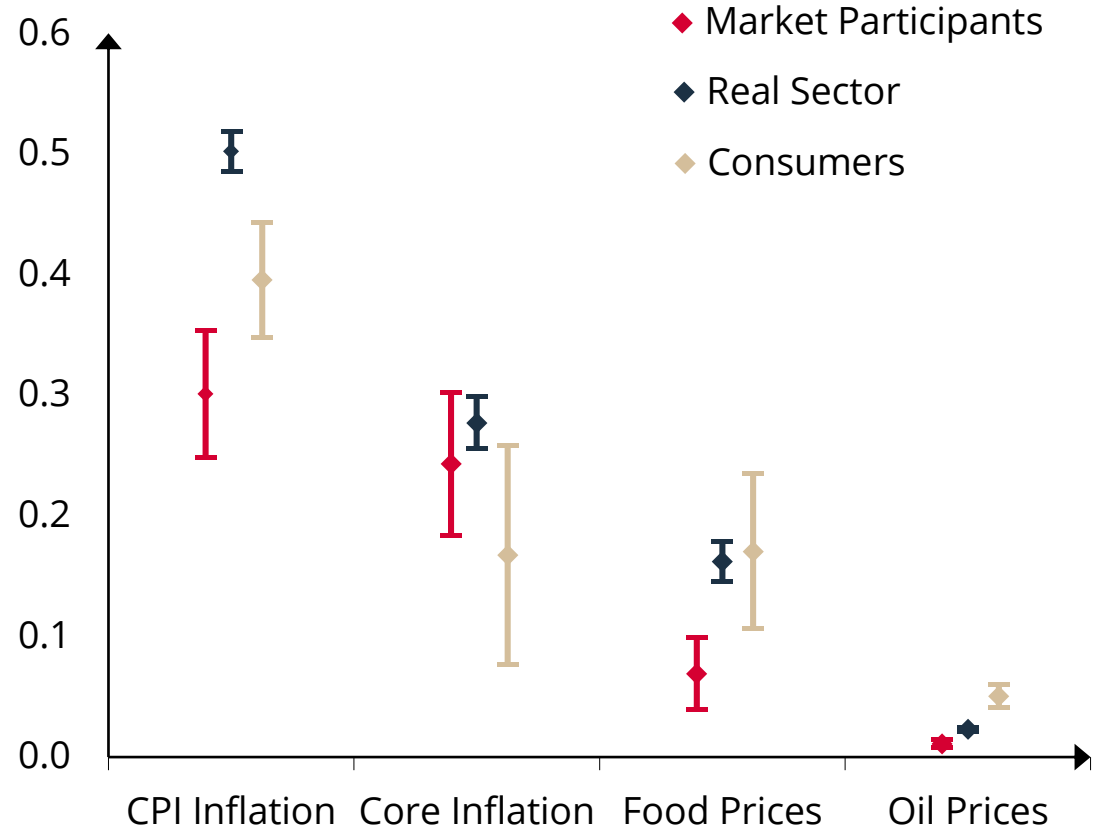


Despite remaining elevated, inflation expectations are on a downward trend.

12-Month Ahead Annual CPI Expectations (%)



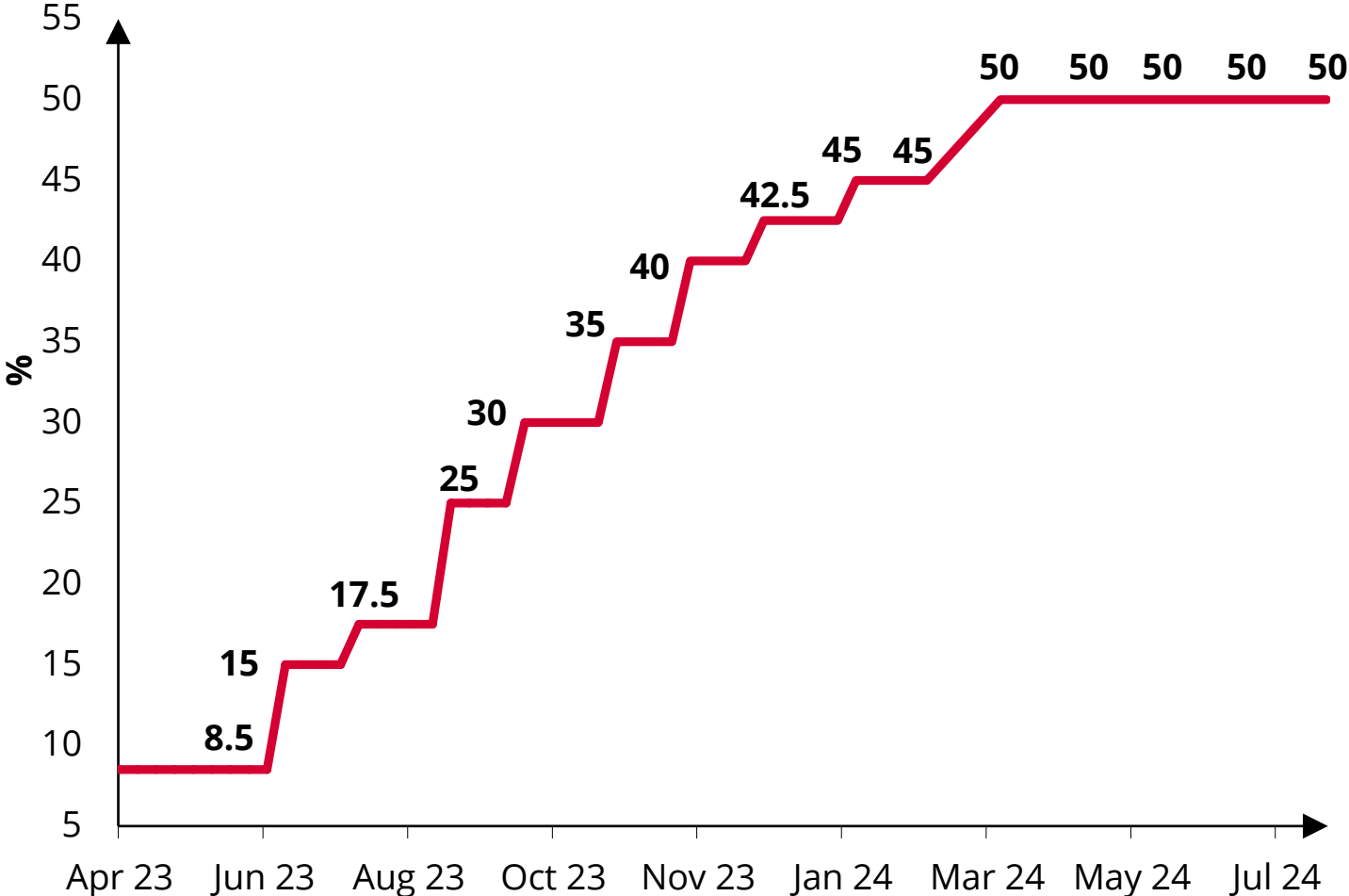
Sensitivity of Expectations to Macroeconomic Variables*



MONETARY POLICY

Tight monetary stance has been maintained.

Policy Rate



Quantitative Tightening

Macroprudential Framework

The monetary transmission mechanism is supported by macroprudential steps.

1

Higher required reserve ratios for Turkish lira and FX-Protected (KKM) deposits

- Additional 550 billion TL sterilization

2

Limit on FX loan growth

- 2% in May
- 1.5% in July

3

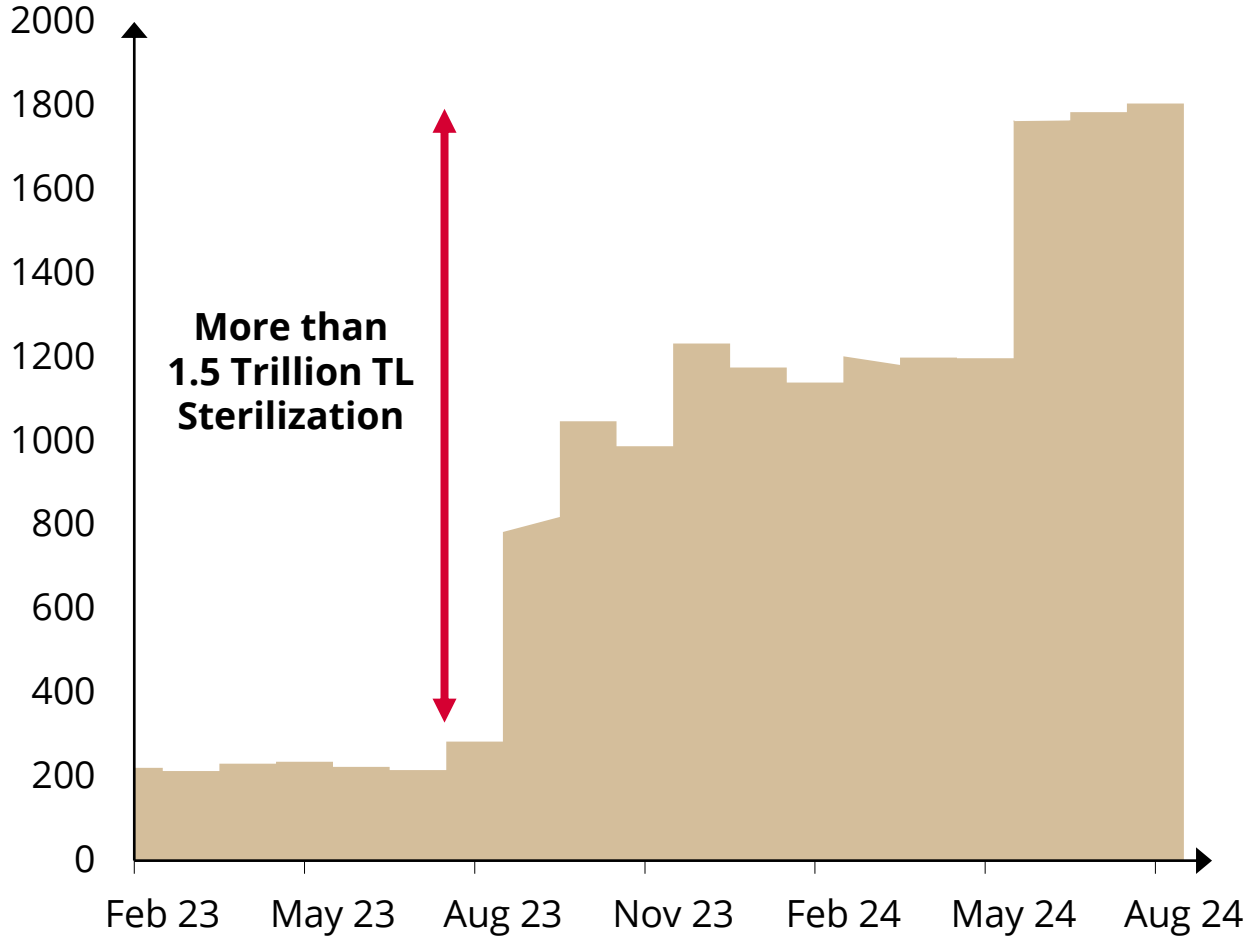
Adjustments to KKM rollover and transition targets (95% → 75%)
Decrease of KKM minimum interest rate (80% of the policy rate → 70%)

4

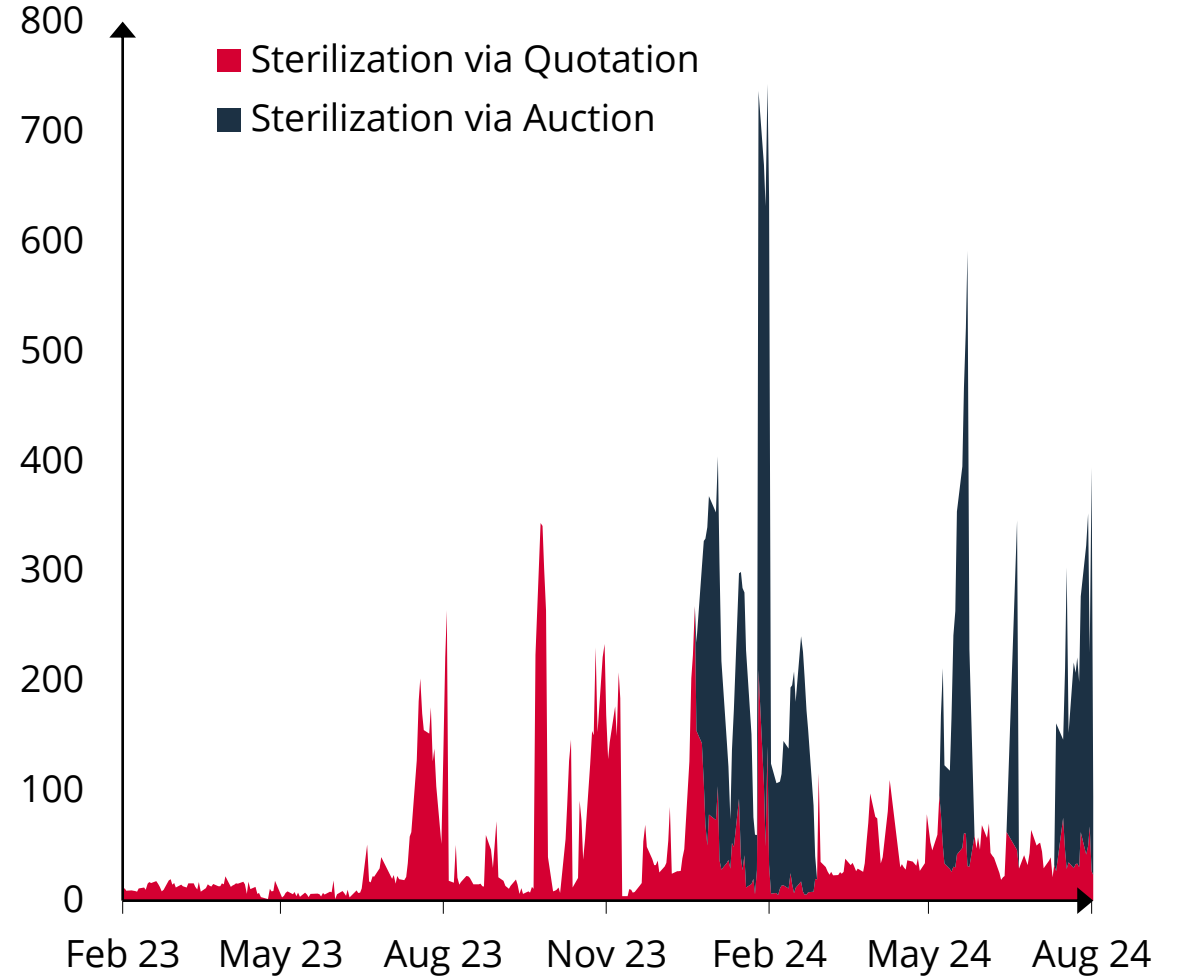
Adjustments to maximum fees paid for early repayment of commercial loans

Excess liquidity has been sterilized by quantitative tightening.

Required Reserves
(Billion TL)



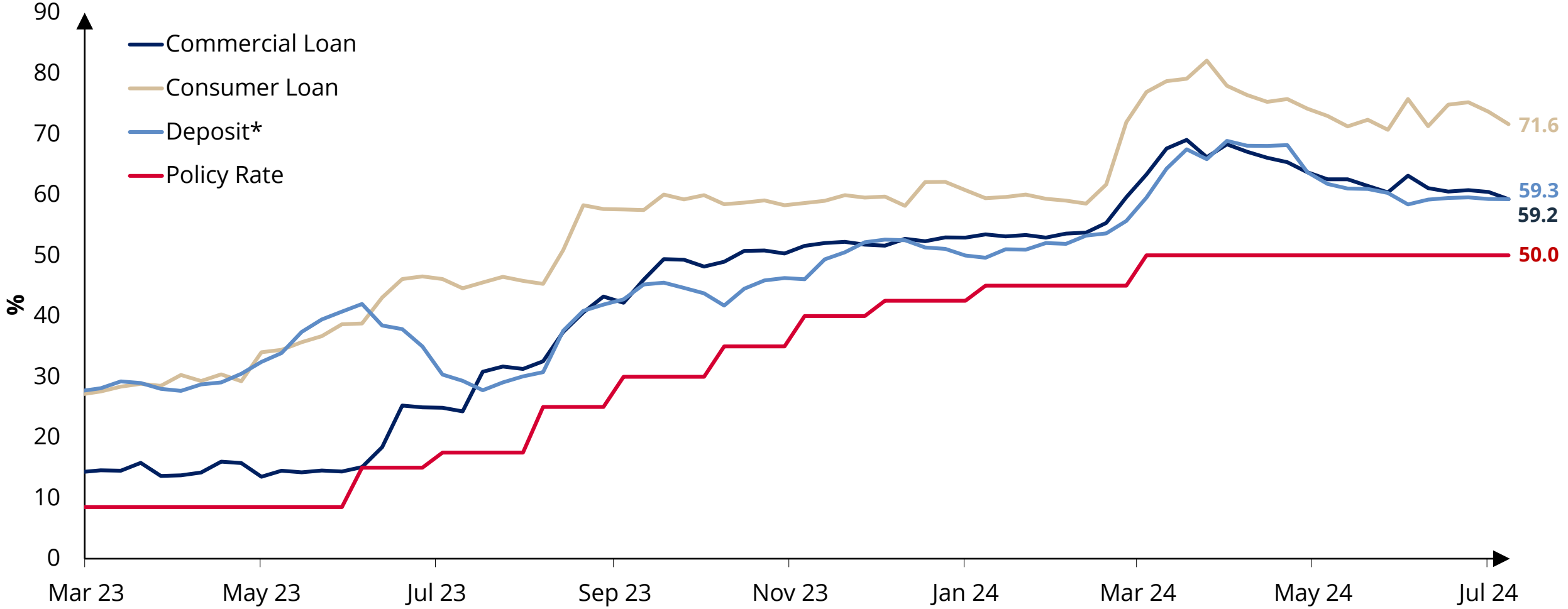
Sterilization via TL Deposit Auctions and Quotation
(Billion TL)



FINANCIAL CONDITIONS

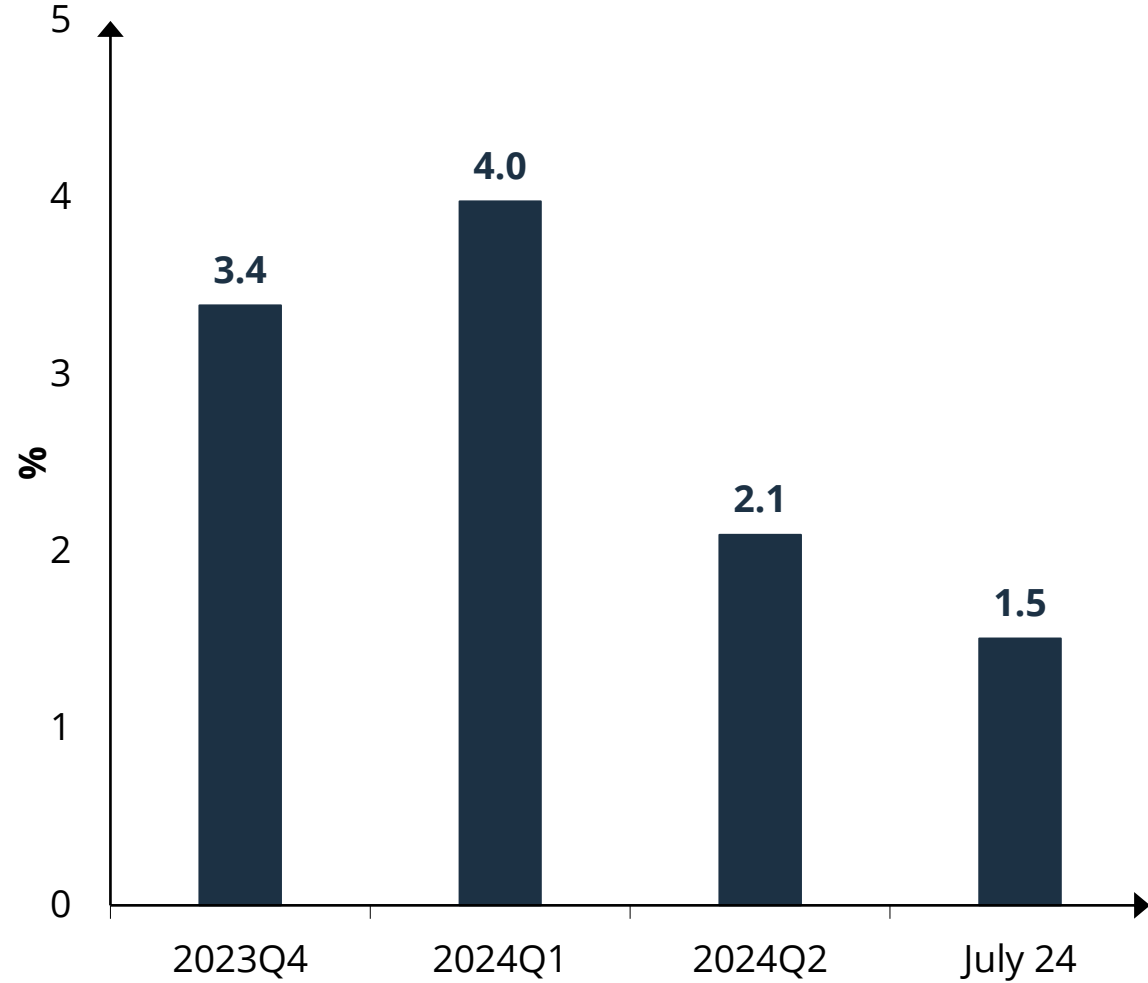
Financial conditions remain tight.

Interest Rates

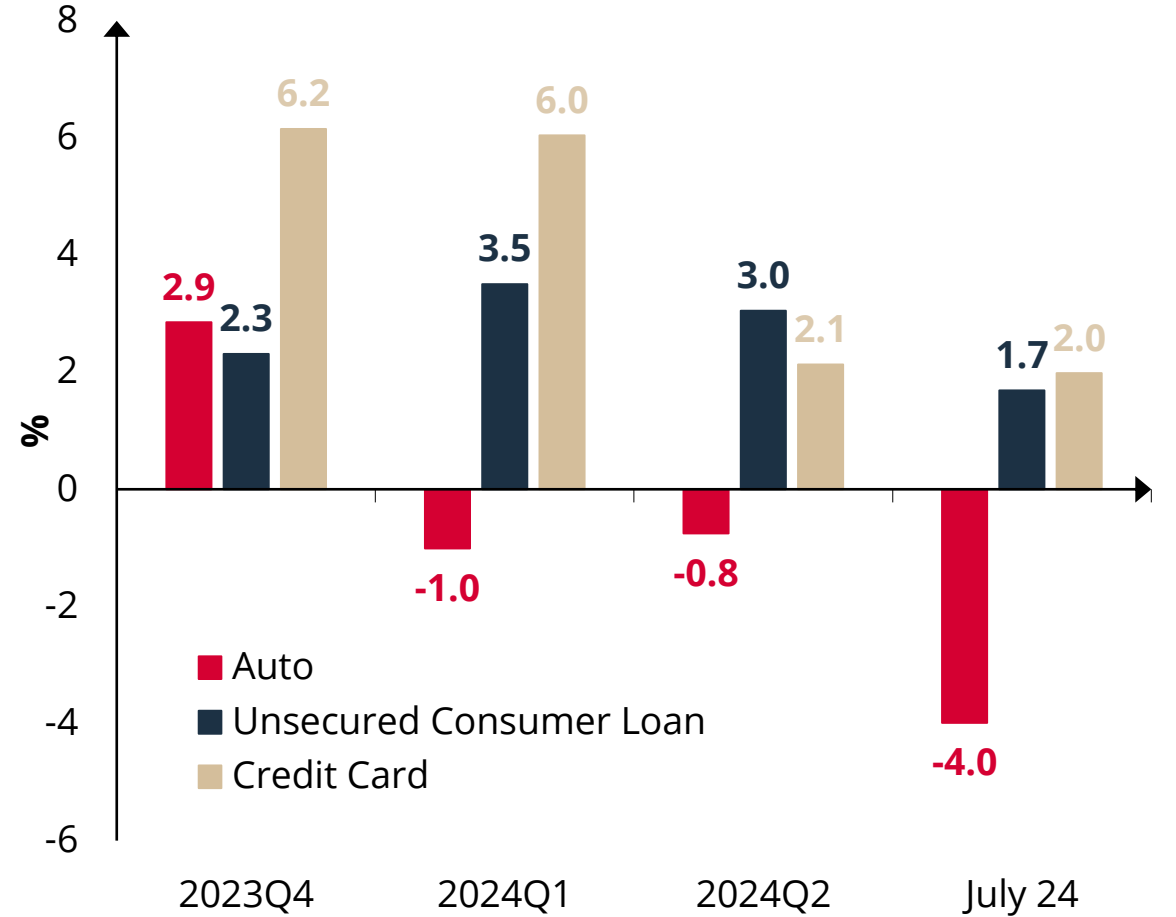


Consumer loan growth has been weakening.

Retail Loan Growth* (Monthly)

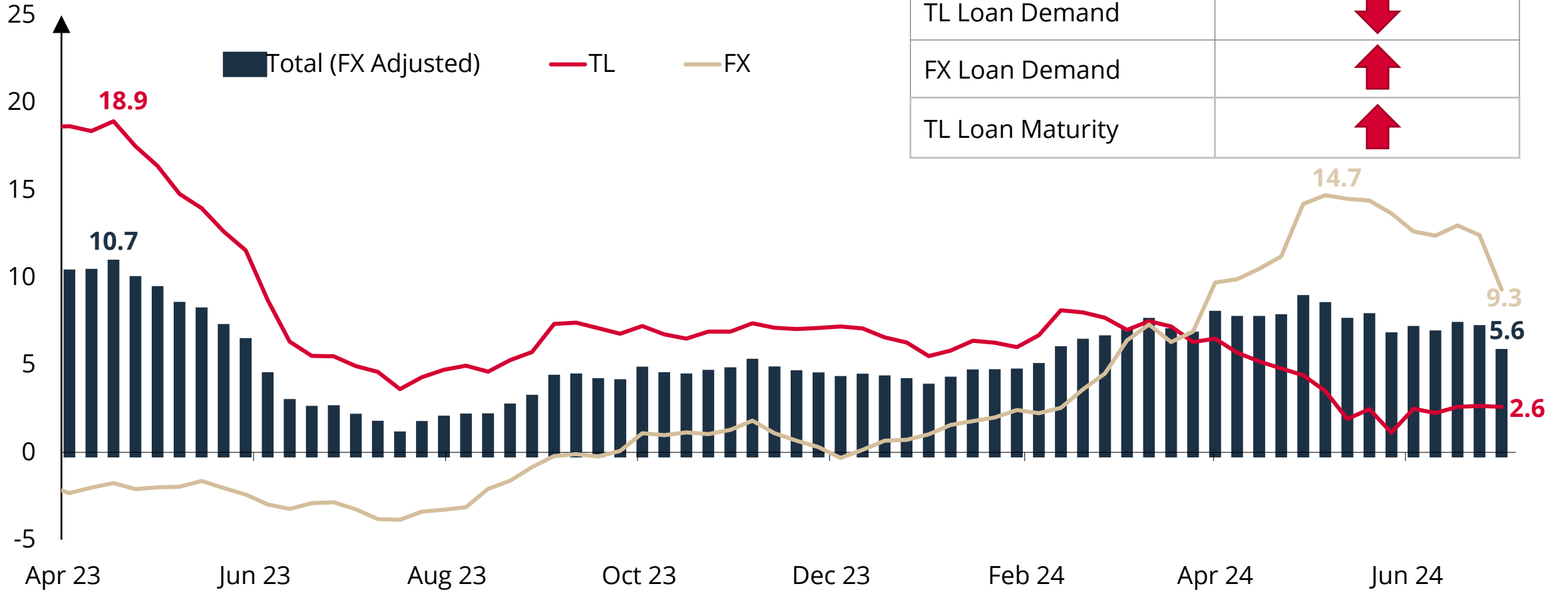


Retail Loan Growth by Category* (Monthly)



Commercial loan growth has slowed down.

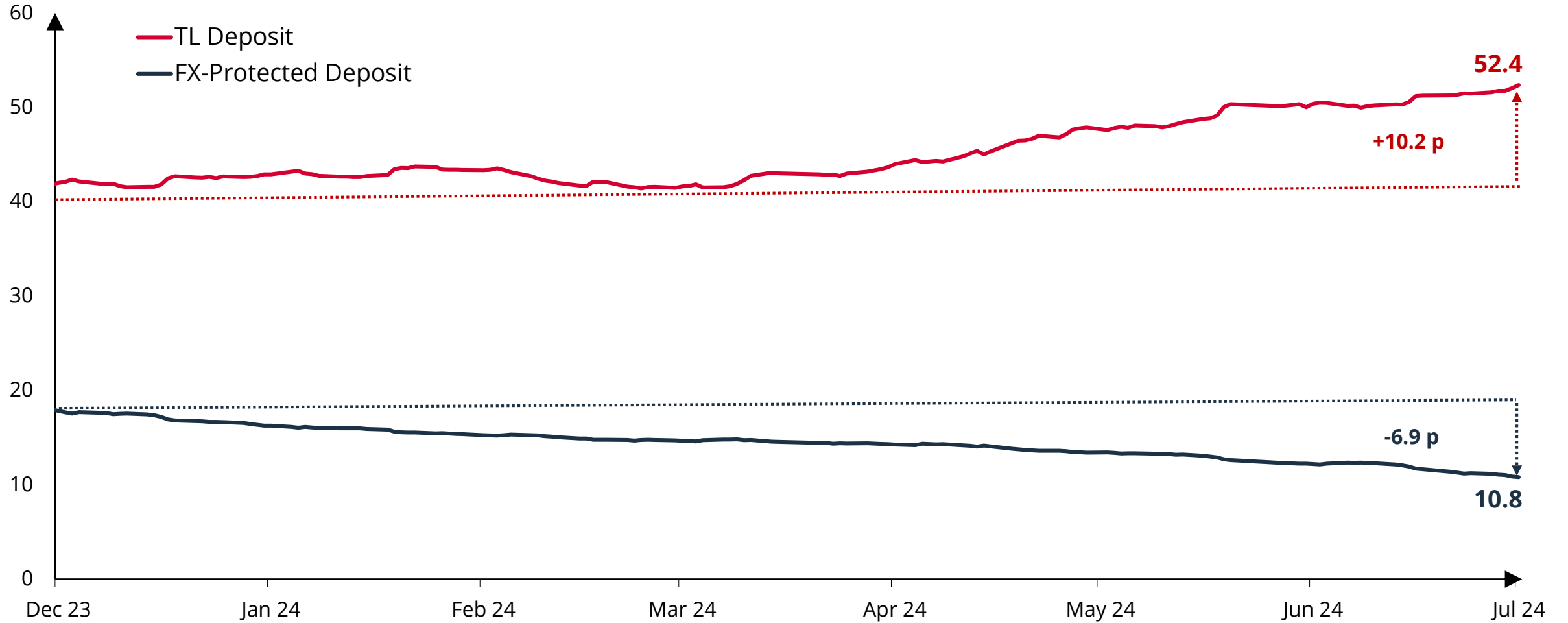
Commercial Loan Growth
(13 Week, %)



| The Impact of the Decline in Inflation Expectations* | |
|--|---|
| TL Loan Demand | ↓ |
| FX Loan Demand | ↑ |
| TL Loan Maturity | ↑ |

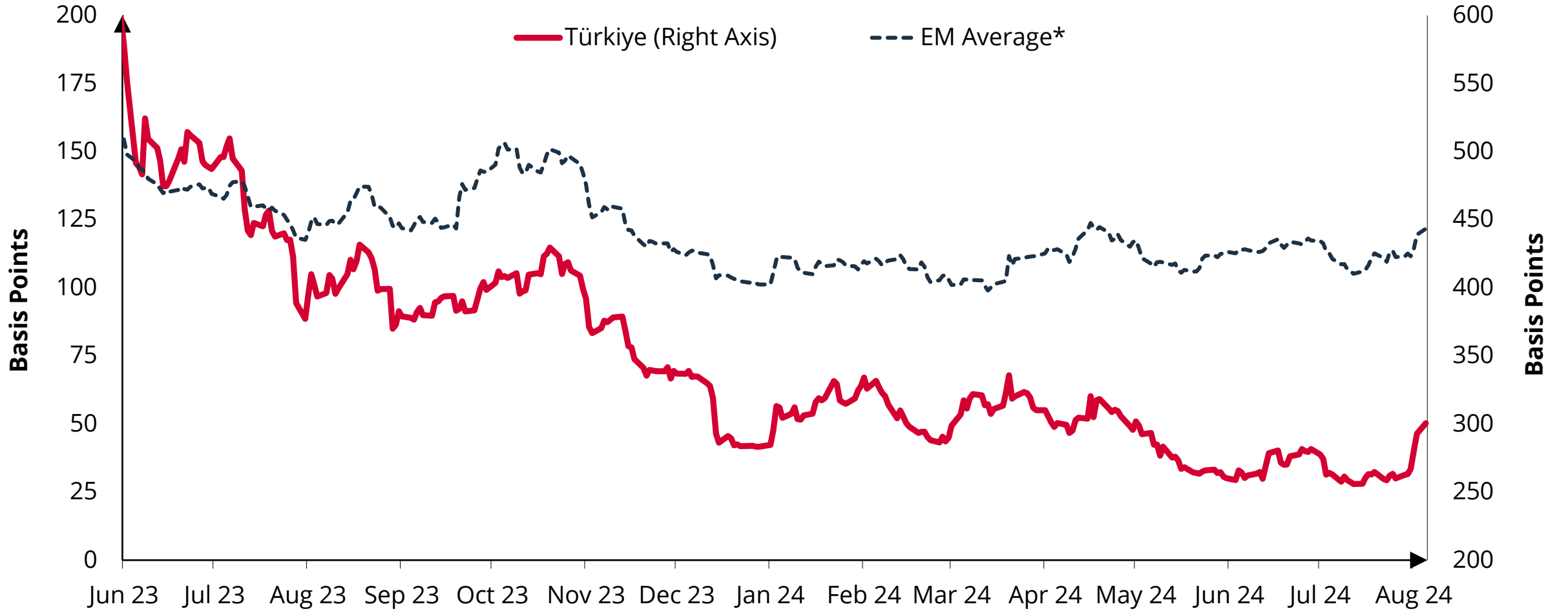
TL deposit share has exceeded the year-end target.

Deposit Share* (%)



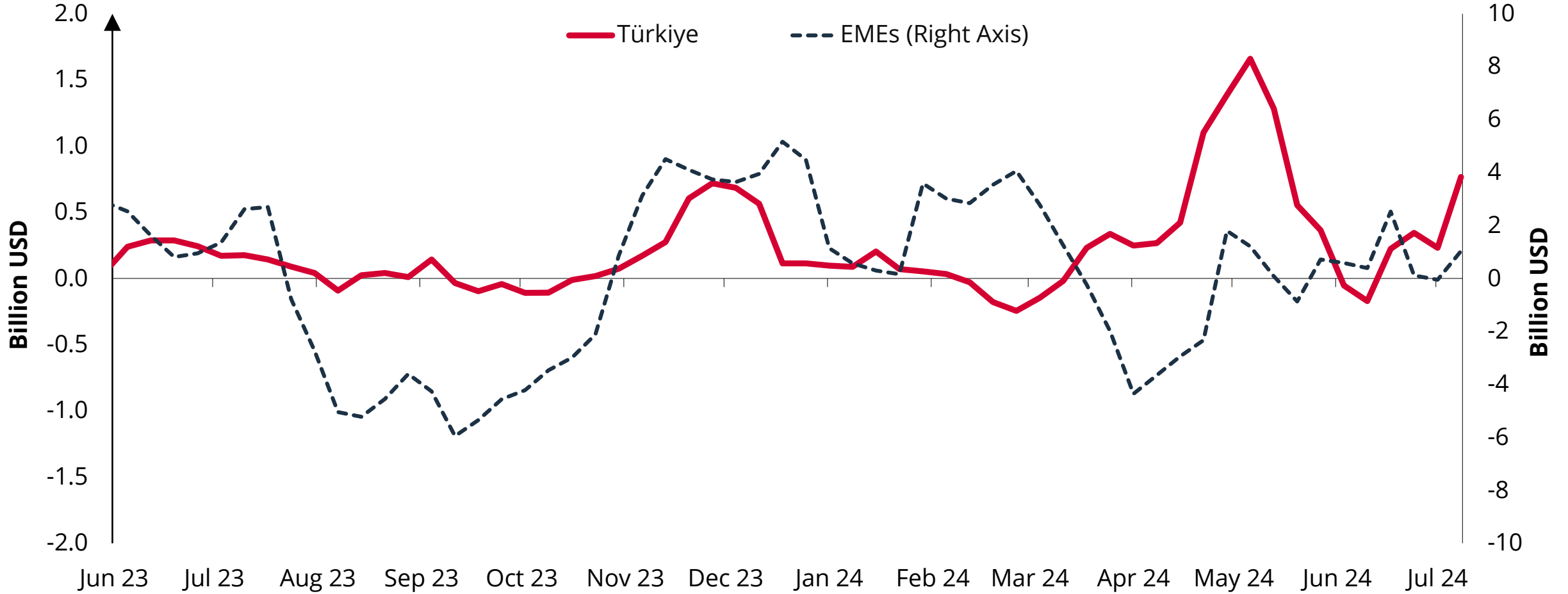
The risk premium continued its moderate course.

5 Year Credit Risk Premiums (CDS)



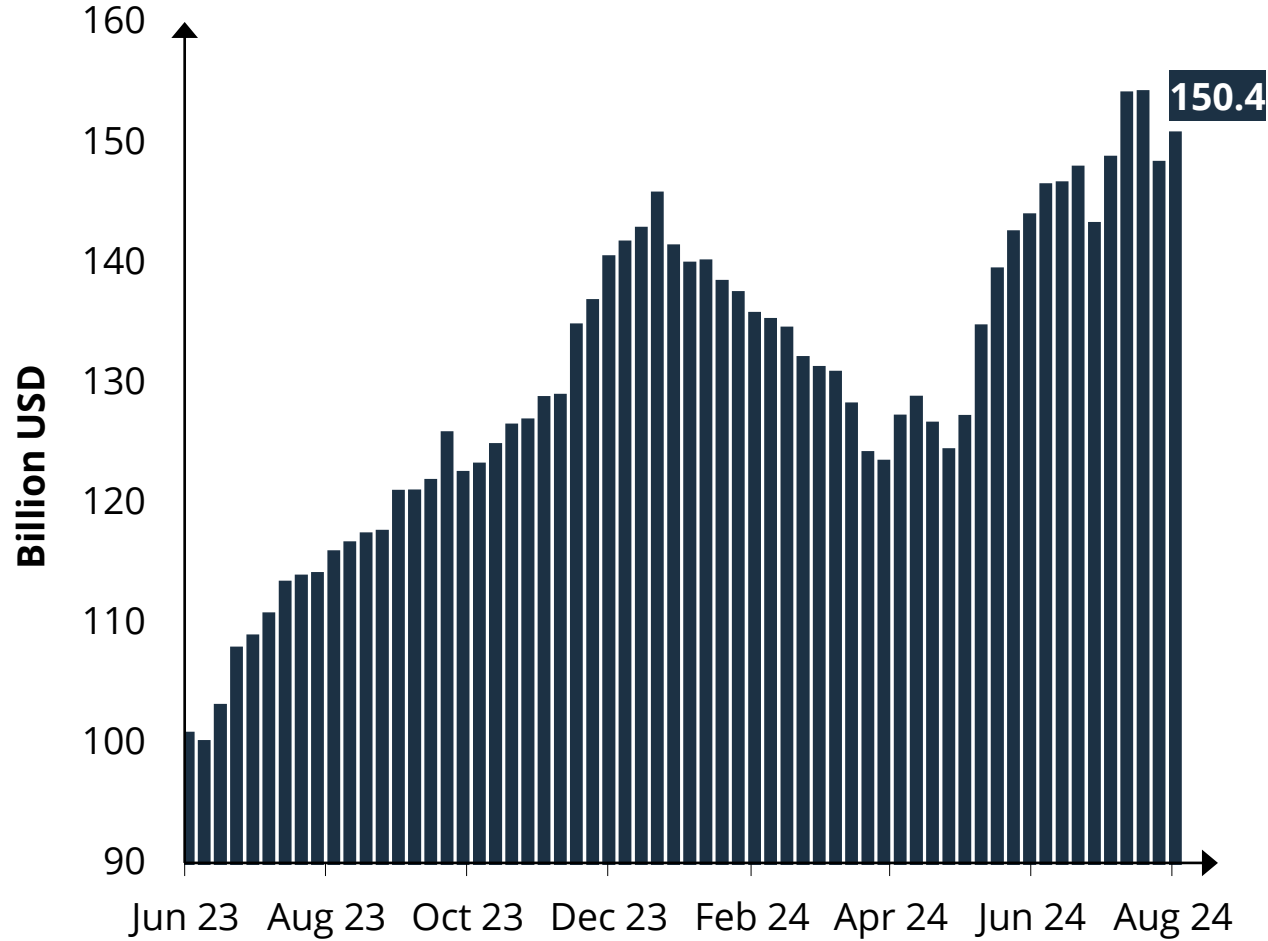
Capital flows have been moderate in recent period.

Capital Flows to Türkiye and EMEs
(4-Week Average)



Monetary tightening has favorable impact on international reserves.

CBRT Gross Reserves



CBRT International Reserves as of August 2, 2024 (Billion USD)

| | |
|---|-------|
| Gross Reserves | 150.4 |
| Net Reserves Exc. Swaps (Including Local Swaps) | 28.6 |

Change in International Reserves Compared to March 22, 2024 (Billion USD)

| | |
|---|------|
| Gross Reserves | 26.5 |
| Net Reserves Exc. Swaps (Including Local Swaps) | 93.1 |

MEDIUM-TERM PROJECTIONS

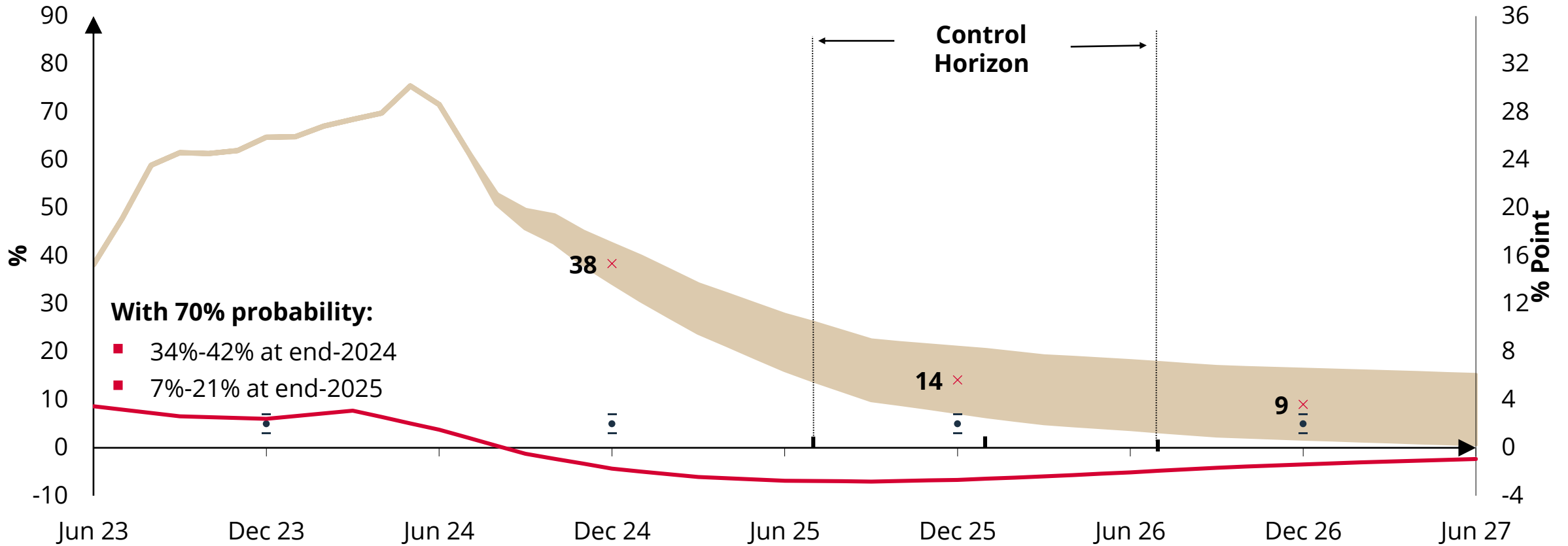
Revisions in Main Assumptions

| | | IR 2024-II | IR 2024-III |
|---|------|------------|-------------|
| Global Production Index* (Average Annual % Change) | 2024 | 2.1 | 2.0 |
| | 2025 | 2.3 | 2.4 |
| Oil Prices (USD, Annual Average) | 2024 | 86.4 | 84.2 |
| | 2025 | 82.3 | 82.9 |
| Import Prices (USD, Average Annual % Change) | 2024 | 0.8 | 0.7 |
| | 2025 | 2.6 | 2.8 |
| Food Prices (Year-End % Change) | 2024 | 35.5 | 35.5 |
| | 2025 | 15.0 | 15.0 |

* Based on the growth rates and export shares of 110 countries to which Türkiye exports.

Inflation forecasts are kept constant at 38% for 2024, 14% for 2025 and 9% for 2026.

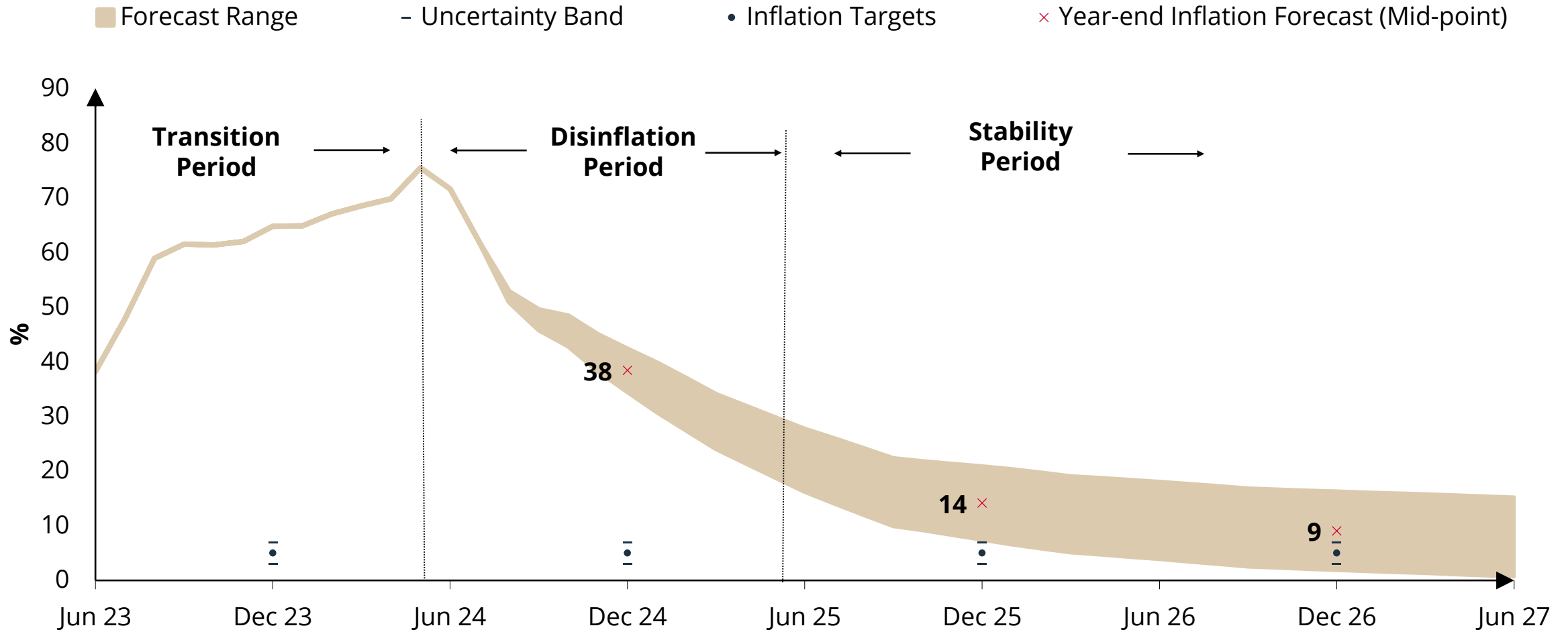
■ Forecast Range - Uncertainty Band • Inflation Targets × Year-end Inflation Forecast (Mid-point) — Output Gap (Right Axis)



The revisions affecting 2024 year-end forecast canceled out each other.

| | 2024 |
|---|------|
| IR 2024-II Year End Forecast (%) | 38 |
| IR 2024-III Year End Forecast (%) | 38 |
| Forecast Revision as Compared to IR 2024-II Period (% Point) | - |
| Sources of Forecast Revisions (% Point) | |
| Output Gap | +0.2 |
| Inflation Expectation/Underlying Inflation | +0.2 |
| Import Prices in Turkish Lira | -0.1 |
| Administered Prices | -0.3 |

The tight monetary policy stance will be maintained decisively.



The tight monetary policy stance will be maintained decisively until price stability is achieved.

Until the underlying trend of monthly inflation shows a significant and sustained decline

- Underlying inflation indicators
- Domestic demand and import indicators
- Financial conditions indicators

Until inflation expectations converge to the projected forecast range

- Broad measures of inflation expectations



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